FINANCIAL TIMES

Judges and policy
Too big for their wigs?
Andrew Adonis, Page 10

Recycling
Germany looks for a greener way
Environment, Page 8

Samsung Electronics
Memory chip leader falls from grace
Page 17

Today's surveys
Private banking
Malaysia
Separate sections

Britain prepares for compromise to settle beef crisis

The UK's Conservative government sought to prepare the Eurosceptics in its party for concessions over the size of a cattle cull in an attempt to settle the beef crisis at this weekend's European Union summit in Florence. European Commission president Jacques Santer is expected to announce details of the draft package at the European parliament in Strasbourg today. Page 12

Moulinex, the French household appliances group, announced plans to cut its workforce by 2,600 and close two French factories as it reported the biggest loss in its 60-year history. Page 13

Netanyahu promises Arab talks: Israel's prime minister-elect Benjamin Netanyahu sought to calm concerns of Arab leaders, meeting in Cairo on Saturday, by pledging to pursue peace negotiations with Syria, Lebanon and other Arab states. Page 12

London and Dublin warn Sinn Féin: Sinn Féin, the Irish Republican Army's political wing, has been warned by the Irish and British governments that it faces isolation unless it can prove it has dissociated itself from the terrorist group's bombing campaign. Page 7

SNCF, the French state-owned rail company, unveiled measures to improve services to customers, less than a week after the French government took over FFr125bn ($24bn) of its debts and future responsibility for rail infrastructure. Page 3

German tax and spending cuts urged: German economics institute IFO said the government would fail to achieve its goal of a 50 per cent cut in unemployment by the end of the decade, unless it cut taxes on business and reduced public spending by DM50bn-DM60bn ($32.4bn-$38.9bn) each year. Page 2

Prodi to unveil financial package: Italian prime minister Romano Prodi is due today to unveil a package of financial measures to prevent the 1996 budget from overshooting its planned deficit, in the first significant test of the government's credibility. Page 3

LG Group, the South Korean industrial and financial group, has offered to invest $50m in listed Polish bank Petrobank, which has specialised in servicing the country's petroleum sector. Page 17

US presses for Karadzic action: The Bosnian government says it has won a US promise that sanctions will be reimposed against Serb-led Yugoslavia unless Bosnian Serb leader Radovan Karadzic relinquishes power by July 1. Page 3

Astra, the Swedish pharmaceuticals group, said it was close to gaining approval from US authorities to launch its second-biggest selling drug, the anti-asthma agent Pulmicort, on the American market. Page 15

Israeli police probe ex-media executive: Israeli police are investigating a former chief financial officer of a key part of News Corporation, the media group, following allegations that he illegally tapped the phone of a former colleague. Page 7

Vietnamese repatriation: Vietnam said it had given Bonn a list of 3,073 people it was prepared to accept back from Germany under a delayed repatriation deal.

Eight years for Harrods blackmailer: A woman who attempted to blackmail London department store Harrods for £8m ($12.7m) was jailed for eight years after the court heard she had a personality disorder following a sex-change operation.

France, Spain reach Euro 96 last eight: Defender Laurent Blanc (below centre) celebrates after scoring the first goal in France's 3-1 win over Bulgaria at Newcastle in their Euro 96 group football match. France and Spain, 2-1 winners over Romania at Leeds, qualified for the quarter-finals. England beat the Netherlands 4-1 at Wembley. Both teams reached the quarter-finals. Scotland failed to qualify, despite beating Switzerland 1-0 at Villa Park, Birmingham.

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,649.82	(-2.96)
NASDAQ Composite	1,190.88	(-16.76)
Europe and Far East		
CAC40	2,107.94	(-5.10)
DAX	2,549.29	(+3.17)
FT-SE 100	3,756.4	(-6.1)
Nikkei	22,332.40	(+87.02)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.186%
Long Bond	86$\frac{17}{32}$
Yield	7.059%

OTHER RATES

UK: 3-mo Interbank	5$\frac{13}{16}$%	(5$\frac{25}{32}$%)
UK: 10 yr Gilt	95$\frac{1}{2}$	(95$\frac{5}{32}$)
France: 10 yr OAT	104.51	(104.35)
Germany: 10 yr Bund	97.45	(97.17)
Japan: 10 yr JGB	98.1889	(98.5736)

NORTH SEA OIL (Argus)

Brent Dated	$18.80	(18.79)

GOLD

New York: Comex		
(Aug)	$387.7	(387.3)
London:		
close	$385.3	(385.2)

DOLLAR

New York: lunchtime		
£	1.5443	
DM	1.5135	
FFr	5.1425	
SFr	1.2470	
Y	107.925	
London:		
£	1.5438	(1.5453)
DM	1.5148	(1.5177)
FFr	5.1447	(5.1484)
SFr	1.2482	(1.2498)
Y	107.975	(108.845)

STERLING

DM	2.3384	(2.3453)
Tokyo $ close:	Y 109.10	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc50	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.50	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

Japan's economy spurts ahead

Fastest growth for 23 years ends 36 months of stagnation

By William Dawkins in Tokyo

Japan's economy grew at an annualised rate of 12.7 per cent in the first quarter of this year, the fastest growth in 23 years, the government's economic planning agency said yesterday.

The expansion marked a decisive end to three years of economic stagnation.

The announcement, which exceeded market estimates, prompted a fall in the dollar from Y109 to Y108 and a drop in Tokyo bond prices, on expectations that the Bank of Japan would be tempted to increase interest rates.

Gross domestic product grew by 3 per cent from the final quarter of 1995 to the three months to March, or by 5.7 per cent from the first quarter last year, the agency said. This brings growth for the fiscal year to March to 2.3 per cent, the highest since 1991 and nearly twice the government's target of 1.2 per cent.

Several private sector economists questioned whether such a high rate of recovery could last through the summer.

"These are extremely strong figures, but this rate of growth is just not sustainable," warned Mr Robert Feldman, director of economic research at Salomon Brothers Asia. Even so, Salomon might adjust its 2.8 per cent growth forecast – already slightly above the market consensus – for the current fiscal year. "It may be a touch higher," said Mr Feldman.

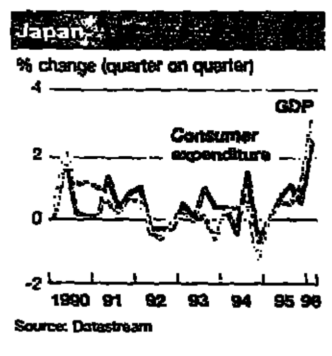
Mr Chris Calderwood, economist at BZW in Tokyo, said: "These figures are so strong that they stretch credibility beyond breaking point." He said the numbers gave a far brighter picture than the BoJ's most recent quarterly survey of business confidence last month, seen as the most authoritative guide to the short-term economic outlook.

"Japan's economy is standing at the entrance to a self-sustainable recovery, led by private demand," said Mr Makoto Kobayashi, agency vice-minister.

Private consumption, which accounts for about 60 per cent of GDP, rose by 5.1 per cent in comparison with the same quarter last year, nearly twice as fast as in the final three months of 1995.

Some economists said that private spending was unusually low early last year because of the psychological shock of the Kobe earthquake.

Spending growth may have started to ease, along with GDP generally, in the second quarter of this year.



Source: Datastream

The other important engine of economic growth was public sector investment, which rose by

Continued on Page 12
Editorial Comment, Page 11
Lex, Page 12

Yeltsin deal with Lebed boosts poll hopes

By John Thornhill and Chrystia Freeland in Moscow

Russian president Boris Yeltsin yesterday boosted his re-election chances by forging a political alliance with Mr Alexander Lebed, the retired army officer who came third in Sunday's presidential poll after running an aggressive law-and-order campaign.

In another vote-grabbing move, Mr Yeltsin sacked Mr Pavel Grachev, the unpopular defence minister and long-time rival of Mr Lebed. Senior officers loyal to Mr Grachev protested.

In return for Mr Lebed's support, Mr Yeltsin offered him a tailor-made government post as secretary of the influential security council and national security adviser.

Mr Yeltsin staged a televised ceremony to bring Mr Lebed into his government in an apparent attempt to win the support of the 11m Russians who voted for the nationalist general on Sunday. The president also hinted that Mr Lebed could be his political heir.

"This is the union of two politicians, of two different programmes. The programme of Lebed enriches my programme," Mr Yeltsin said.

Explaining why he had rejected the Communists and backed Mr Yeltsin, Mr Lebed said: "I was facing two ideas. An old one that has shed lots of blood and the new one which is being implemented very badly at the moment but has a future. I have chosen the new idea."

Mr Gennady Zyuganov, the Communist presidential challenger, said he still hoped to do a deal with Mr Lebed and predicted that no matter what the result of this week's horse-trading, the general's voters would swing to the left.

"We will conduct negotiations with him [Mr Lebed]. I do not think it is too late," Mr Zyuganov said. Other leading Communists also warned that Mr Lebed would be marginalised by his decision to work for the president he once dismissed as "a minus".

"Lebed is finished as a politician. There is no party or mass organisation behind Lebed. He has only his name. His rise in the elections is a phenomenon which occurs once every three years," said Mr Gennady Seleznyov, the Communist speaker of the lower house of parliament.

Mr Lebed claimed yesterday that he was already playing an influential role in deciding the nation's fate by quelling protests from senior army officers opposed to Mr Grachev's brutal dismissal. He accused five top generals of leading the protest and said he would have them sacked.

Meanwhile, General Mikhail Kolesnikov, the respected chief of the general staff, was named as acting defence minister. General Boris Gromov, the last Soviet officer out of Afghanistan who has been campaigning for Mr Yeltsin, was widely tipped to fill the post on a permanent basis.

Mr Grigory Yavlinsky, the leader of Russia's liberal opposition who came fourth in Sunday's presidential poll, said he was still willing to talk to Mr Yeltsin about a political alliance. But Mr Yavlinsky said he still had not been approached by the president and would refuse to initiate the talks himself.

The other big loser in Sunday's vote, Mr Vladimir Zhirinovsky, the ultra-nationalist who came fifth, lashed out at Mr Lebed's opportunism and accused him of stealing his electoral base.

Let's shake on it: Russian president Boris Yeltsin (right) has offered Alexander Lebed a government post as secretary of the influential security council in return for the retired army general's support in the second round of voting in Russia's presidential elections Picture: Reuter

Markets give thumbs-up to Yeltsin's ally, Page 2
Lex, Page 12

Hillary Clinton attacked in report on Whitewater

By Jurek Martin in Washington

The Republican majority on the Senate Whitewater committee yesterday came close to accusing Mrs Hillary Clinton, wife of the US president, of obstruction of justice on several counts related to the couple's Arkansas real estate ventures.

But the committee's Democratic minority said that, because the year-long investigation had "failed to tarnish" President Bill Clinton, the Republicans had decided to turn on Mrs Clinton "with no evidence to show improper or illegal conduct."

Both sides presented their sharply different conclusions at packed press conferences at which charges and counter-charges, designed for maximum electoral impact, flew thick and fast.

Senator Al D'Amato from New York, the Republican chairman of the committee, accused the White House, naming several past and present senior aides, of "a troubling and continuing pattern of the abuse of power."

"We have witnessed a pattern of deception and arrogance," he said. But he stopped short of recommending criminal prosecution of the First Lady or of any of the Clintons' staff or friends.

"The facts speak for themselves," he said, "and reasonable people can make conclusions." The majority report is to be forwarded to Mr Kenneth Starr, the special Whitewater counsel.

Other Republicans, freely making comparisons with the Watergate scandal that brought down President Richard Nixon in 1973, were less reticent. "Most roads lead to the First Lady, and back to her," declared Senator Richard Shelby from Alabama.

But Senator Paul Sarbanes from Maryland, senior Democrat on the committee, said Republicans, seeking maximum political mileage, had "constructed a conclusion" from the outset and had simply disregarded any evidence that was "inconvenient" to that conclusion.

The minority report said that Mrs Clinton was being held to a standard beyond "human

Continued on Page 12
Partisan politics, Page 6

US air safety chief goes in shake-up after ValuJet crash

By Patti Waldmeir in Washington

The Clinton administration yesterday announced a major shake-up of the Federal Aviation Administration, including the retirement of its top safety official, following intense public and political pressure arising from last month's ValuJet crash.

Less than a day after the FAA announced the indefinite suspension of ValuJet's operations, Mr Federico Pena, secretary of transport, said the agency would make wide-ranging personnel and organisational changes. "The FAA looked itself in the mirror. It found that organisational and management changes were needed," he told a press conference.

The FAA has been accused of negligence for failing to spot ValuJet's shortcomings earlier, and for insisting, in the aftermath of the May 11 crash which killed 110 people, that the airline was safe.

Mr Anthony Broderick, the long-serving associate administrator for regulation and certification and one of the best-known airline safety officials in the world, is to be forced into retirement as part of the shake-up.

Mr Pena said the administration would also ask Congress to change the FAA's "mission"; in future it would focus only on airline safety, and no longer on promoting the airline industry. "There should never be another question about the top priority of the FAA," he said.

The White House is understood to have pushed for the changes, eager to limit further embarrassment to President Bill Clinton, who had earlier campaigned to take credit for the lower airfares offered by new carriers such as ValuJet in the wake of airline deregulation.

After the Department of Transportation issued a report in April documenting the benefits of low-cost travel, Mr Clinton said it was "more good news for Americans who are enjoying lower fares as a result of our efforts to increase competition".

Mr David Hinson, FAA administrator, has admitted that the FAA was "lax" in its oversight of the low-fare carrier, which halted operations at midnight on Monday.

Yesterday he announced tough new rules to change the way that the FAA maintains surveillance of air carriers which, like ValuJet, use outside contractors to maintain their aircraft.

The FAA grounded ValuJet after an intensive investigation revealed what it called "several serious deficiencies" in its operations, though Mr Hinson stressed that no link had been proved between maintenance problems and the Florida Everglades crash.

Richard Tomkins adds from New York: ValuJet's shares, which only weeks ago had been trading at a high of $34¾, fell from $10 to $5¾ in early trading on the Nasdaq market yesterday.

Lex, Page 12
Airline faces rough ride, Page 16
World stocks, Page 30

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

NEWS: EUROPE

EU agrees costly car anti-pollution plan

By Gillian Tett in Brussels

The European Commission yesterday agreed a package of changes to tackle car pollution which will cost some Ecu5.5bn ($6.76bn) each year to implement across the European Union - with car producers facing Ecu2.4bn-worth of extra costs each year over the next 15 years.

The European Commission aims to phase out the use of leaded petrol by the year 2000 in an effort to tackle air pollution, as part of a broad package of new regulations to control vehicle pollution.

The proposals, which have been drawn up after four years of consultation with the oil and car industry, have provoked bitter controversy within the Commission and European industry.

European oil producers are broadly in favour of the proposed changes, but vehicle producers believe they have been unfairly victimised, while environmentalists and some US oil companies have criticised the package for setting standards that are too lax.

The Commission's proposals envisage two new forms of regulations to tackle car pollution. One set would aim sharply to reduce the level of car emissions progressively over the next 10 years by requiring vehicle manufacturers to introduce more environmentally friendly technology.

By the year 2000, the Commission will require that the proportion of carbon monoxide, nitrogen di-oxide, diesel particulates and other pollutants, be reduced by between 20 and 40 per cent from their current levels. After the year 2005 it wants to go even further and reduce emissions by between 50 and 70 per cent.

The Commission admits that this reduction will be difficult to achieve with existing technology and so foresees that the standards will be reviewed after research at the end of the century.

The cost of complying with the standards in 2000 is estimated to be Ecu2.4m a year for car manufacturers, Ecu675m for manufacturers of heavy good vehicles, and Ecu318m a year for van producers. Though German car manufacturers are well placed to meet the proposals, French and Italian carmakers face more difficulties.

The second part of the package requires the oil refining industry sharply to reduce the level of sulphur in diesel and petrol to 350 parts per million and 200 parts per million respectively by the year 2000. This compares with current limits of 500 ppm for petrol and 2000 ppm for diesel. The Commission also hopes to phase out leaded petrol by the year 2000, albeit under a system where the poorer EU countries could be exempt from this requirement for three years.

These limits, coupled with other proposed changes in fuel, would cost the oil industry some Ecu768m a year in new investment.

Though the Commission hopes to tighten standards of fuel after the year 2005, it has agreed to put off specifying the new standards until more research is conducted later this decade, by 1998.

Environmental groups claim the move is far too restricted. Mr Gijs Kuneman, director of the European Federation for Transport and Environment, for example, yesterday said that the package should aim for a level of 50ppm for both diesel and petrol.

Friends of the Earth, the environmentalist pressure group, yesterday accused the European motor industry of causing the Commission to weaken its own proposals.

"The motor industry should make sure the cars it sells are as clean as technically feasible. However, it seems more concerned with saving money than protecting public health," it said.

Markets give thumbs-up to Yeltsin's ally

By John Thornhill in Moscow

Russia's capital markets yesterday heaved a big sigh of relief on news of President Boris Yeltsin's enlistment of Mr Alexander Lebed, pushing the prices of some leading stocks up by as much as 20 per cent.

Investors saw Mr Lebed's backing of the president as further confirmation Mr Yeltsin would defeat Mr Gennady Zyuganov, his Communist challenger, in the run-off election.

Mr Yeltsin's hints that he might make Mr Lebed his successor also helped allay some of the longer-term concerns about Russia's political stability, given the fragility of the president's health.

The retired general confesses he knows little about economics, but ran on a strongly pro-market manifesto.

Mr Dirk Damrau, head of research at Renaissance Capital, a Moscow-based investment bank, said: "At least temporarily, the mood of the market is euphoric. Foreigners were excited on Monday after the first round results, but there was a re-injection of domestic enthusiasm yesterday. It was reassuring to see two big strong men standing together on the podium."

Moscow's capital markets are still small and highly volatile, but are expected to expand sharply if Mr Yeltsin is re-elected. Stockbrokers predict the stock market could quadruple in value to $100bn (£65bn) by the end of the decade.

The Moscow Times index of Russia's 50 biggest stocks has risen 18 per cent since Friday, but the most striking change of sentiment has come in the government debt market, especially at the longer end.

Yields on six-month government bonds (GKOs) have fallen from 212 per cent at last Thursday's auction to 144 per cent at yesterday's close, while the benchmark three-month yield has fallen from 180 per cent last Tuesday to 129 per cent.

Some analysts warned that the drastic fall in yields was simply the result of domestic banks re-investing cash holdings they had amassed before the first round of the elections.

Mr Denis Smyslov, head of research at the Moscow office of Global Fund Management, said: "I think the market has over-reacted in the past two days. There is not a lot of new money coming into the market and as soon as it does, the ministry of finance will sell more GKOs on the secondary market, pushing yields higher again."

Lex, Page 24

Mr Malcolm Rifkind, the UK foreign secretary, yesterday hailed the results of the first round of Russia's presidential elections, but said it was too early for Russia to become a full member of the Group of Seven industrial nations, reports Bruce Clark.

Mr Rifkind told the Financial Times it was "very good news" that nearly 70 per cent of the Russian electorate had rejected Mr Gennady Zyuganov, the communist candidate.

He also welcomed the fact that Mr Vladimir Zhirinovsky, the ultra-nationalist politician, had received barely 6 per cent of the votes, and said "it looks as if [Boris] Yeltsin will continue" in office.

Referring to the high score of Gen Alexander Lebed, Mr Rifkind said he was often described as a moderate nationalist but as yet "we don't know a huge amount" about his policies.

Chrystia Freeland on the man in the president's embrace

Lebed: anointed successor or novice in Kremlin snakepit

Bringing Mr Alexander Lebed into the government in a televised ceremony this morning was the kind of political theatre at which Russian President Boris Yeltsin has proved the nation's master.

The carefully timed *pas de deux* with the third-placed finisher in the ballot for president on Sunday is expected to boost Mr Yeltsin's second round bid later this month. But if, with Mr Lebed's help, the Russian leader wins the run-off against the Communist party's Mr Gennady Zyuganov, Russian politicians and western observers are already wondering how the admission of the rebellious former general into the Kremlin's inner sanctum will affect policy.

Although Mr Lebed's military resumé and deep-voiced promises to restore Russian greatness lured many Russian nationalists away from the more extreme Mr Vladimir Zhirinovsky in the poll on Sunday, his appointment to the Yeltsin team is not expected to have any immediate effect on foreign policy. Western observers expect Mr Evgeni Primakov, the powerful former KGB boss who now rules the foreign ministry, to continue to be Russia's face to the outside world, and predicted that from his new perch in the Security Council Mr Lebed would be primarily interested in domestic issues.

However, the cabinet shake-up Mr Yeltsin ordered yesterday to make room for his new ally has further strengthened the hardline faction in the government. Mr Oleg Lobov, one of the country's arch-hardliners who has been a faithful supporter of Mr Yeltsin since his days as a provincial party boss, now occupies the powerful post of first deputy prime minister. Mr Yuri Baturin, one of the vanishing breed of liberal presidential aides, remains in the Kremlin but has been deprived of his portfolio.

Lebed (left) and Yeltsin yesterday: welcome to the Kremlin

There could also be a more conciliatory line in Chechnya. Mr Lebed, the new rising star in the defence establishment, and General Boris Gromov, who has been tipped as the new minister of defence, are long-standing opponents of Russia's botched efforts to subdue Chechen separatists. The man who started the war, General Pavel Grachev, was yesterday ousted from his post as minister of defence.

In his political campaign, Mr Lebed sold himself to voters as the tough man who could root out corruption and bring long-awaited reforms to Russia's military. However, some analysts warn that in the snake pit of the Kremlin the 46-year-old general is a novice who will soon fall prey to venomous attacks.

"I think Lebed jumped too soon," a diplomat in Moscow said yesterday. "He is on his own now in an alien environment which is pretty Darwinian. He is now in a game that is a lot bigger than the one he is used to playing and one in which he is an almost total outsider. He risks losing it all."

A sobering warning for Mr Lebed must be the bitter experience of the previous general who threw the prestige of his uniform behind a Yeltsin campaign for the presidency: General Alexander Rutskoi. As vice-president in a Yeltsin administration, Gen Rutskoi quickly found himself outfoxed by wilier Kremlin aides and was pushed to the fringes of Russian politics, eventually leading a failed armed uprising.

Other analysts think that, if Mr Lebed plays his cards right, yesterday's appointment could be the ticket to the presidency which Mr Yeltsin has hinted he will one day be happy to hand over to him. One Russian political scientist believes that with his new job Mr Lebed has now gained an opportunity to launch a high-profile war against corruption.

"I think this appointment will have a cardinal effect on the battle against organised crime and there is already a bit of a panic in mafia circles," Mr Sergei Markov, a political lecturer at Moscow State University, said. "Lebed is truly very unfamiliar with politics and he is taking a great risk. But if he launches a serious battle against organised crime, then is forced out of his job, it will be a sacking which will allow him to become president in the year 2000."

Mr Markov, who predicts that Mr Lebed will be pushed out within a year, believes that if he pursues this battle, the general will almost immediately face swift opposition from some of the most powerful figures in the Yeltsin administration, whose close links with Russian vested interests could be threatened by Mr Lebed's new broom. One of the first tussles could be with Mr Yuri Luzhkov, the influential mayor of Moscow, who is backed by the capital city's wholesale traders and financiers.

Another potential antagonist might be Mr Victor Chernomyrdin, the powerful prime minister, who would resent any attempt to usurp his position as the number two figure in the Russian state.

But Mr Lebed's most dangerous opponent could ultimately prove to be the man who invited him into the Kremlin in the first place. Though Mr Yeltsin yesterday spoke warmly about heirs and alliances, the ailing apparatchik has already outwitted many of Russia's leading politicians by bringing them into an embrace so close that it crushes.

EU plan to trim car aid hits snag

The European Commission plans to block part of a state aid package proposed to help the German car group Volkswagen invest in existing *operations in eastern Germany*. The Commission's proposals would trim the DM800m ($533m) package to *two car plants in Mosel and* Chemnitz, Saxony, by some DM240m, report Gillian Tett in Brussels and Wolfgang Münchau *in Frankfurt*.

But attempts to trim the state aid have been strongly opposed by some German officials *amid bitter wrangling*.

A decision on the project was initially due yesterday, but the Commission delayed the ruling for another week after one German commissioner, Ms Monika Wulf-Matthies, raised objections.

Commission officials remain confident that Mr Karel Van Miert, the competition commissioner, will succeed in *cutting the state aid next* week.

Their objections revolve around two main issues: *whether the project* can be reasonably counted as a "green field" site with new investment, or simply an extension of existing projects, and the question of the Commission's regional quotas on aid.

Heed UK example, Germans told

By Peter Norman in Bonn

Mr Hans-Olaf Henkel, the president of the Federation of German Industry (BDI), yesterday launched a blistering attack on the government of Chancellor Helmut Kohl, urging it to learn from "Anglo-Saxon" *competitor* nations, including Britain, the US and New Zealand.

Speaking shortly after Mr *Tony Blair, the leader of the* UK opposition Labour party, won enthusiastic applause from a packed hall of business *leaders attending yesterday's* BDI congress in Bonn, Mr Henkel admitted it was not yet politically correct to advocate *"Anglo-Saxon" economic* policies in Germany.

But Germany, with its growing unemployment, had "a lot to learn" from countries such as Britain, the US and "even little New Zealand".

In 1983 (the year after Mr Kohl became Chancellor), unemployment rates in all three countries were higher than in Germany. Now, the *reverse was true*, with Germany's unemployment rate more than 50 per cent above the US level. UK *unemployment had fallen* 20 per cent from its peak in the 1980s; in Germany it had risen 10 per cent.

His critical remarks about Germany reflected widespread dissatisfaction with the government's cautious *economic policy*, which has given a low priority to deregulation and liberalisation compared with maintaining the main fabric of Germany's welfare state.

Mr Henkel pointed out that for the past 14 and 17 years respectively, Germany and Britain had conservative, pro-business governments in power. "One [Britain] has continually *rolled* back the influence of the state, the other [Germany] not. The one [Britain] embarked decisively and at an *early stage* on privatising state industries, the other [Germany] much later."

By early privatisation of its *phone system, Britain had* a low-cost telecoms network. Germany had to be pushed into liberalisation by the European Commission.

While state activities in Germany accounted for over *half of gross domestic product*, they had fallen to 42 per cent in Britain and to a "benchmark" 33.5 per cent in the US. Retained profits were taxed at *65 per cent* in Germany against 33 per cent in Britain and 28 per cent in Sweden.

Germany *spent DM1,100bn* ($714bn) on social welfare a year or one third of GDP. Germany had few strikes. But *strikes* were rare in Britain and the idea of the "English disease" outdated.

Since 1985, *foreign companies had invested 10* times more in the UK than in Germany, even though the German market was twice the *size of the UK*. "I am sure that will not change," he said.

Blair's Europe pledge Page 7

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Institute's call for budget savings adds to divisive debate on welfare reforms

Bonn urged to cut tax burden on business

By Wolfgang Münchau in Frankfurt

The German government will *fail to achieve its goal of a 50* per cent cut in unemployment by the end of the decade, unless it cuts the burden of taxation on business and enacts *budget cuts of between* DM50bn ($32.8bn) and DM60bn each year, according to IFO, the Munich-based economic institute.

In a wide-ranging report *released today about the future* of the German welfare state, IFO concludes that fundamental structural welfare state reform is inevitable because the next *economic upturn* will fail to bring down the rate of unemployment sufficiently.

Earlier this year, Chancellor Helmut Kohl promised to cut unemployment from 4m then, or roughly 10 per cent of the working population, to 2m by the end of the decade.

The institute has calculated that the level of income taxes and social security contribution consistent with 2m unem*ployed would be 42.5 per cent* of gross wages as opposed to 48 per cent today.

A reduction of taxes and social security contributions to an average of 42.5 per cent would imply *fundamental* reform of the various social insurance systems. IFO argues that the social security system needs to be freed from external *financial obligations, such as* the payments of pensions to former eastern German pensioners who had never contributed to the fund.

The findings add a controversial political note at a time when the country is leading a divisive debate about the future of the welfare state, because it implies that Germans can *choose either* to maintain the welfare state in its current form or have lower *unemployment, but not both*.

The government has announced a savings package of about DM70bn for next year, but it has caused a political uproar, and is being opposed by the trade unions and the opposition Social Democrats, who control the Bundesrat, the upper house of parliament.

The IFO report said "the action programme for investments and jobs of the federal government points in the right direction, but econometric sim*ulations suggest however that* to achieve the aim of a 50 per cent reduction in unemployment by the year 2000, it is necessary to go beyond measures announced *so far in terms of reduction* in social levies, income taxes and corporation taxes".

Germany's output of cars and commercial vehicles slipped to 419,700 in May, down 6 per cent compared with May last year, reflecting continued weakness in the German economy. The Federation of the German Automobile Industry *said yesterday* car production at 397,300 was down 5 per cent compared with April, while output of commercial vehicles fell 22 per cent to 22,400.

The strong decline, especially in the *commercial* vehicle sector, amounts to another sign that the German car industry is facing a strong squeeze in its home market.

Total vehicle exports were down 8 per cent compared with May 1995 at 235,000, with car exports down 8 per cent and commercial vehicle exports down 1 per cent.

The data confirm comments from *Mr Helmut Werner, chairman* of Mercedes-Benz, who said last week the truck market had suffered a strong decline this year. New domes*tic orders for car and commer*cial vehicles were down by 7 per cent respectively.

EUROPEAN NEWS DIGEST

Brussels acts on pension curbs

The European Commission has written to at least two member states challenging the investment restrictions they currently place on pension funds, said Mr Mario Monti, the EU Commissioner in charge of the single market, financial services and taxation.

Mr Monti, speaking at a conference of the European Federation for Retirement Provision in Brussels, said efforts by EU states to prevent their domestic pension funds from investing abroad could violate the EU's existing directive guaranteeing capital movement within the EU. If the restrictions are not removed, he will consider bringing the matter before the European Court, he said.

Mr Monti declined to name which countries had received the letters but it is understood that Belgium, which insists that its pension schemes invest at least 15 per cent of their assets in its government bonds, and Finland, have been targeted. "I am not satisfied that all existing restrictions can be justified by prudential considerations," he said. *Norma Cohen, Brussels*

Tiberi housing row continues

A public prosecutor in Paris has been asked to decide whether to let an investigating magistrate pursue allegations that Mr Jean Tiberi, the gaullist mayor of Paris, may have abused his past position as head of the Paris housing office by having a low-rent city apartment occupied by his son refurbished at public expense.

The allegations are similar to those levelled last year at Mr Alain Juppé, who was gaullist deputy mayor of Paris before he became prime minister and who housed himself and family members in city property. That case was closed on condition Mr Juppé moved out of his city-owned apartment. Mr Tiberi's son, Dominique, no longer lives in city property, but is still chief of staff to the city minister in charge of relations with parliament.

Mr Tiberi says the investigation by Mr Eric Halpen, a magistrate, into his family's past property arrangements is politically motivated. In his probe into billing practices, Mr Halphen unearthed details of past work done on Dominique Tiberi's apartment. To pursue these he needs permission from the Créteil public prosecutor. *David Buchan, Paris*

Spanish inflation plan 'feasible'

Spain's aim of reducing inflation sufficiently to qualify for European monetary union is "feasible but ambitious", according to Mr Luis Angel Rojo, governor of the country's independent central bank.

He warned the new centre-right government it would run "serious risks" if it gambled on a free interpretation of the Maastricht treaty criteria, or a delay in the 1999 start-up for the single currency. Such a policy would be punished by financial markets, jeopardising Spain's chances of qualifying.

Presenting the annual Bank of Spain report, he praised the new centre-right government for its steps to curb spending and liberalise the economy, saying that Spain needed to act "resolutely" to reduce its public sector deficit.

Both inflation - 3.8 per cent in the 12 months to May - and interest rates differentials between Spain and leading EU countries were still too high, he said. He warned that wage agreements were out of step with a lower inflation trend, and that labour costs were growing faster than in the principal EU economies. *David White, Madrid*

Growth at Schiphol airport

The Dutch government may become more choosy about the flights it accepts to Amsterdam's Schiphol airport, particularly charters, after revised projections showed its capacity of 44m passengers a year was likely to be reached much sooner than 2015, the original date. Ms Annemarie Jorritsma, transport minister, said yesterday that shorter term measures would be discussed after parliament's summer recess.

Completion of a fifth runway, scheduled for 2003, would need to be brought forward. To ease what she said was recognised as a burden on residents in the area, a plan to phase out landing rights for noisier aircraft could also be speeded up.

The faster than expected growth stemmed from a greater worldwide market share won by KLM, the country's flag carrier, in part through its code sharing link with North-West Airlines of the US.

Schiphol, with 8.4 per cent of all European passenger traffic last year, was used by more than 25m people, a rise of 7.6 per cent on 1994. *Gordon Cramb, Amsterdam*

EIF to promote job creation

The European Investment Fund, a European Union agency which guarantees investment loans, is to begin acquiring venture capital holdings in small and medium-sized companies (SMEs) to promote job creation and innovation.

The measure, approved yesterday at a shareholders meeting in Lisbon, will enable the EIF to invest up to a third of its own funds - about Ecu75m ($94m) - over the next three years. Sir Brian Unwin, president of the European Investment Bank and of the EIF's supervisory committee, said investment would be focused on "young, innovative companies" throughout the EU. Separate investments of up to Ecu3m each are to be made through existing investment funds. *Peter Wise, Lisbon*

Ukraine finance minister sacked

Ukraine's finance minister, Mr Petro Hermanchuk, yesterday became the latest casualty in an ongoing cabinet reshuffle. The minister, under fire for mismanaging Ukraine's finances, will be replaced by Mr Valentin Koronevsky.

Ukrainian liberals had hoped a reformer would take over finance, but Mr Koronevsky, a political unknown, got the call instead. President Mr Leonid Kuchma and the prime minister, Mr Pavlo Lazarenko, have vowed to shake up the government. However, the firing last week of the energy minister, Mr Oleksei Sheberstov, *surprised many. Mr Sheberstov* had tried to set up a World Bank-supported wholesale market for electricity. In another move, Mr Vasily Durdinets was named first deputy prime minister. *Matthew Kaminski, Kiev*

■ Mr Guntis Ulmanis was re-elected president of Latvia for a second term by its parliament yesterday.

ECONOMIC WATCH

Italian producer prices up 2.6%

Italian producer prices were up 2.6 per cent year-on-year in April, while wholesale prices rose 4.5 per cent, the Italian statistics bureau Istat said. In March, the producer price index (PPI) had risen 3.6 per cent and the wholesale price index (WPI) rose 5.6 per cent. PPI rose 0.1 per cent in April from March, while WPI rose 0.7 per cent.

Month-on-month, producer prices rose 1.8 per cent for oil, derivatives and natural gas, while industrial and agricultural machinery rose 0.5 per cent, Istat said.

Producer prices of minerals and metals fell 1.1 per cent month-on-month, pulp and paper prices fell 1 per cent, and electricity, gas and water fell 0.5 per cent. Year-on-year, motor vehicle producer prices rose 5.5 per cent. *AFX, Rome*

■ Finland's trade surplus totalled FM2.971bn ($632m) in January, down from FM4.232bn a year earlier.

■ Sweden had a current account surplus of SKr5.4bn ($806m) in April following a surplus of SKr4.6bn in March.

Sanctions option to neutralise Karadzic

By Laura Silber in Belgrade

The Bosnian government says it has won a US promise that international sanctions will be reimposed against Serb-led Yugoslavia *unless Mr Radovan Karadzic, the Bosnian Serb* leader, *relinquishes* power by July 1.

A senior official of the Moslem-led Bosnian government said US mediators had pledged that Mr Karadzic would bow out of the political scene before the go-ahead was given for Bosnia's elections on September 14.

Speaking on condition of *anonymity*, the official said that if Mr Karadzic failed to step down, then sanctions against Belgrade, suspended last November in Dayton, would be reimposed.

Western diplomats also said a deal to this effect was made *behind the scenes at last week's international conference on Bosnia in Florence.* But Mr Michael Maclay, spokesman for the international mediator, Mr Carl Bildt, yesterday declined to confirm any deadline, saying: "Mr Karadzic has been in the process of stepping down for some time." However, the Bosnian official expressed confidence that Mr Bildt, who is in charge of the civilian side of the Dayton agreement and also attended the Florence conference, was party to the agreement on removing Mr Karadzic from power.

Sanctions can be re-imposed *on the recommendation of Mr Bildt or Admiral Leighton Smith, commander of Nato* forces in Bosnia. The Americans, while not confirming that they have struck a deal with Bosnian Serb leaders or President Slobodan Milosevic of Serbia, stress they are looking for ways to neutralise Mr Karadzic.

*Under the Dayton agree*ment, which says indicted war criminals cannot hold public office, Mr Milosevic and his counterparts from Bosnia and Croatia pledged to co-operate with the war crimes tribunal. Threats to re-impose sanctions *are aimed at securing Mr Milosevic's co-operation*. According to the agreement, sanctions can no longer be used against Belgrade once Bosnia's election have taken place.

Washington is anxious to stick to the year-long Dayton timetable – including the holding of elections in September. President Bill Clinton, who has pledged to pull out the 16,000-strong US force by the end of the year, fears criticism during his campaign for re-election.

Many observers believe the US will stop short of insisting on the arrest of Mr Karadzic, because this move could undermine the Dayton plan.

One western diplomat said it was hoped that Mr Karadzic would simply remain isolated in Pale, his mountain stronghold.

Mr Christian Chartier, spokesman for the War Crimes Tribunal in The Hague, said yesterday that the political will *apparently existed to isolate indicted war criminals such as Mr Karadzic, rather than* arrest them.

"We believe, however,, that the failure to arrest Mr Karadzic is more damaging to peace. He is blocking the freedom of movement, impeding the free *media, and not allowing the return of refugees, also major* provisions of the Dayton agreement," Mr Chartier added.

It also seems clear that Mr Milosevic, despite intense international pressure, refuses to arrest Mr Karadzic for fear of a backlash from within the Serbian political elite.

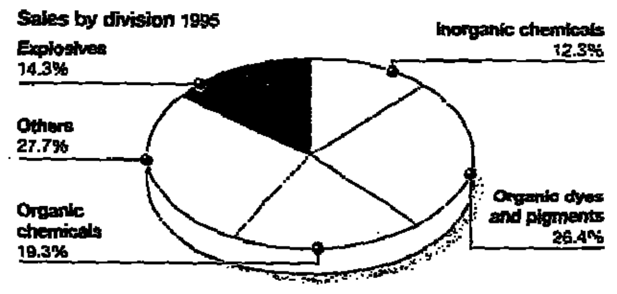
Semtex: the deadly brand name

Vincent Boland reports on the Czech company unburdened by an infamous product

Few companies are in the perverse position of producing a famous brand-name product they would prefer most people didn't know about. The Czech chemical concern Synthesia is such a company.

The product is Semtex, the plastic explosive that has caused death and destruction worldwide *in the hands of terrorists.* Semtex was used in the bombing of the Pan-Am airliner over the Scottish town of Lockerbie in 1988 which caused the loss of 270 lives and has been a favourite weapon of the Irish Republican army (IRA) in the UK.

Synthesia: the full product profile



Synthesia makes many useful products – paints, dyes, pigments, medicines, textiles, pesticides – but it is Semtex that keeps exploding on to the headlines. Sales of these products accounted for the bulk of Synthesia's total turnover of Kc5.8bn ($207m).

"The public only knows about Semtex," Mr Jaroslav Valoušek, the company's chairman and chief executive, says with a shrug, "but at least our business partners know we make many other things".

Semtex production last year accounted for less than 0.3 per cent of Synthesia's total revenues. Like any good chairman, he is proud of the product, but he admits that its deathly profile overshadows the rest of the company.

He prefers to discuss the environmental prize awarded to Synthesia earlier this year by the Business Leaders Forum of the UK's Prince of Wales as proof of the world beyond Semtex, and proudly shows off a new water treatment unit at the plant that helped secure the prize.

A tiny quantity of Semtex packs quite a punch. Before the explosive capacity is added, it looks like a slab of red meat and is about as heavy, but it is malleable. Add a little gunpowder, and it is deadly. "The so-called Semtex problem is not Synthesia's problem," Mr Valoušek says. Since 1989, the company has tried to ensure exports go to legitimate buyers, and there is an elaborate procedure, including end-user certificates from buyers.

He blames the communists for allowing Semtex to become available on the international illegal arms market. In the spirit of socialist brotherhood, Czechoslovakia traded with Libya, Iraq, North Korea and other regimes that allegedly support terrorists. "We can prove that all the quantities of Semtex in the hands of terrorists [today] were sold in the communist era," he says, citing the export certificates and the requirement, introduced in 1991, to mark the explosive to make it easily detectable.

Mr Valoušek says Synthesia concentrates entirely on supplying Semtex for civilian use, with a shelf life of one year. The explosive is widely used in the construction industry for blasting tunnels and cutting through rock for road and railway building. The explosives division is a key part of Synthesia's production, accounting for 14 per cent of sales and exports. But "*Semtex production is nothing for this company*," the chairman says.

Synthesia was founded in 1920 as the Czechoslovak Joint Stock Factory for Explosives, changing its prosaic name to the more evocative Explosia in 1934 (the explosives division is still known by this name).

Synthesia was founded in 1928 to supply organic chemicals to the explosives plant, and another chemicals operation was added 10 years later. In 1942 the occupying Nazis, pumping out explosives at the plant to feed the German war machine, started a plastics plant which was not finished until 1958.

The company was nationalised in 1948 and renamed Synthesia. It was privatised in 1994, with shares sold to Czech citizens through the coupon programme, and for a while was a darling of the Prague stock exchange because it was both big – with a market value at its peak of about $150m – and liquid, says Mr Samuel Oubadia of ING Barings in Prague.

The explosives division is hidden in a wooded area at Synthesia's vast complex on the edge of Pardubice, a town 100km east of Prague.

In 1984, a huge explosion at Synthesia killed five workers and injured 300 after 40kg of gunpowder blew up. If such a thing were to happen again, the company hopes the trees will absorb much of the shock.

The fact that Synthesia makes Semtex has been "more of a positive than a negative" for investors, says Mr Vladimir Jaroš of Wood & Co, the Prague stockbroker. But a collapse in profits to Kc85m last year from Kc393m in 1994, and the acquisition of a controlling stake by the acquisitive chemicals conglomerate Chemapol have pushed it out of favour.

French railways launch service offensive

By David Owen in Paris

"We have to win the battle of the clientele." With that rallying cry, Mr Loïk Le Floch-Prigent, the chairman of SNCF, the French state-owned rail company, yesterday unveiled a package of measures to improve services to customers.

The nine measures cover both passenger and freight services and follow a wide-ranging customer survey launched in February.

They come less than a week after the French government sought to make life easier for the SNCF by taking over FFr125bn ($24bn) of its debts and future responsibility for rail infrastructure.

The principal measures affecting passenger traffic are as follows:

- The *introduction of about 200 so-called "green trains" per day, some of which* will be *trains à grande vitesse* (TGVs).

Passengers will be able to secure discounts of 15 per cent on the full fare on these trains and will not be required to make reservations. The first green trains should appear in December.

- The *introduction of a system of compensation* for *passengers* on late-running trains.

On journeys of 100km or more, passengers whose trains are more than 30 minutes late will receive a voucher worth a quarter of the price of their tickets.

Those experiencing a *delay* of more than an hour will get a voucher worth *half the price of their tickets*. This will start in September.

However, unless there is a deterioration in the company's punctuality record, compensation payments will be infrequent.

According to *Mr Francis Taillanter, the SNCF's infrastructure director*, 80 per cent *of the* company's trains arrive less than three minutes late and only between 4 per cent and 5 per cent arrive more than 15 minutes late.

- The introduction, also in September, of a system enabling those who book their tickets by phone to have them sent to their home address free of charge.
- A programme of *improvements to 50 large stations*, including *renovations* to waiting-*rooms*, sanitary facilities and heating systems.

On the freight side, the company will *step up* its efforts to keep regular clients better informed.

Mr Le Floch-Prigent indi*cated* that the measures would not require an increase in the company's 1996 budget.

"It is not a question with these commitments of increasing our expenditure and cutting our receipts," he said.

The measures will form part of the company's strategy for reversing the long-term decline in its share of total passenger traffic to less than 24 per cent and of *total* freight haulage to 8 per cent.

Italy's new PM faces up to test on budget

By Robert Graham in Rome

The credibility of Italy's month-old centre-left government faces its first important test today when prime minister Romano Prodi unveils a package of financial measures to prevent the 1996 budget from overshooting its targeted deficit.

Mr Prodi and his economic team, headed by treasury minister Carlo Azeglio Ciampi, the former prime minister and central bank governor, have said they intend to give a strong signal of Italy's desire to respect the Maastricht criteria in advance of the EU summit in Florence on Friday.

The mini-budget is also intended to pave the way for an early re-entry of the lira to the European *Exchange* Rate *Mechanism* (ERM).

The package has gone through several different versions and last night ministers were talking of measures that will find L16,000bn ($10.3bn) in spending cuts and fresh taxes to hold the budget deficit to its target of 5.9 per cent of gross domestic product. This deficit is still nearly double the EU norm and well above the 3 per cent set *for the end of* 1997 by the *Maastricht* treaty.

But if the L16,000bn figure is confirmed, it will still be equivalent to half the size of the original 1996 budget – underlining the weakness of the budget introduced by the out-going government of Mr Lamberto Dini.

Officials in the economic *team say two thirds of the* package will take the form of spending cuts. At least L4,000bn is expected to come from substantial cuts in transfers to the state railways (FS), the roads authority (Anas) and the export credit guarantee organisation (Sace). These had already been planned by the *previous government*.

Other spending cuts will be made in the defence budget. But the most polemical area where differences remained last night was health. The unions have resisted both any attempt to reduce health spending as well as moves to increase health *service charges* and *impose* a controversial small levy *on* certain types of pension.

The government also has decided to impose a freeze on recruitment in the public sector and ask all ministries to shave 2 per cent off their purchasing budgets. Other cuts will be made in privileges enjoyed by civil servants. More generally, Mr Ciampi is putting much faith in savings coming from a more vigorous approach to reform of public administration.

The fiscal side will be responsible for raising some L5,000bn. There have been hints some measures will be introduced to *obtain more* from corporate profits. Traditional measures *such* as raising petrol taxes have been discarded but the government will tax lotteries further. It also likely to extend further some form of tax amnesty, a measure taken by the two previous governments.

NEWS: ASIA-PACIFIC

Indian curbs on spending win plaudits

By Mark Nicholson in New Delhi

Indian industry and economists have welcomed as a "qualitative step forward" the first initiative of Mr P. Chidambaram, United Front finance minister, when he announced broad spending guidelines aimed at cutting Rs30bn ($860m) from government expenditure.

But they said real inroads into the fiscal deficit would depend more heavily on further tax reforms and restraint in the UF's undertakings to boost state investment spending.

The finance ministry said it aimed to make the cuts by scrapping redundant government programmes, increasing ministries' accountability for spending programmes, minimising borrowing, ensuring higher dividend payouts from public sector units and – most welcome to economists – for the first time urging government staffing cuts.

However, the ministry's initiative raised the first internal squall over the UF's economic policy as leaders of the Communist Party of India (Marxist) protested that the moves, notably towards government job cuts, exceeded the ambit of the "common minimum policy", the coalition government's first policy document issued last month. The CPI(M) supports "from outside" but is not a full member of the coalition.

Mr Chidambaram's announcement was designed as an assurance the government is serious about controlling India's delicate fiscal position.

The UF's earlier "common minimum programme" document had set a goal of reducing India's fiscal deficit – 5.9 per cent of GDP last year – eventually to below 4 per cent. But it added "fiscal management... will not be followed at the cost of development or investment".

Mr Chidambaram, however, said in an interview this week that "the one thing I am committed to, devoted to is fiscal prudence".

The spending measures precede what the minister said would be a "reformist" budget due next month. They aim to make ministries more directly accountable for spending and cost overruns, to stop the practice of deferring spending or postponing billings to the next fiscal year and to tie the release of loans and grants to state-run bodies more directly to immediate spending needs.

Revenue enhancing measures included mandating higher dividend payouts to the government from profitable public companies along with proposed rises in administered prices for postal, power and water services.

Most radically, the finance ministry said the budget for state pay and allowances would be frozen for 1997-98, while ministries should cut staff "to the maximum extent possible in the shortest possible time".

Economists welcomed the measures, but expressed some scepticism that they could trim Rs30bn from spending in the present fiscal year. "If they remain just administrative measures, I doubt we'll be able to see that figure," said Mr Shahshanka Bhide, economist at the National Council for Applied Economic Research.

Mr P. Shome, director of the Institute of Public Finance and Policy, said that, fully realised, the cuts would represent a reduction equivalent to 0.25 per cent of GDP, but he added that a figure of Rs15bn appeared "more realistic" for the present fiscal year.

"The quality of the measures is good – for the first time a government has said something about cutting excess employment," he said. "But in terms of quantification, to get the deficit down, if their hope is to cut the deficit to 5 per cent of GDP this fiscal year, then there is still need for strong tax measures." These, he said, should include further broadening of the tax base and include an attack on numerous personal and corporate tax exemptions.

South Korea half-heartedly opens the investment door

The Seoul stock market has the reputation of being the toughest in Asia for overseas investors.

Limits on the overseas ownership of listed companies has been particularly frustrating since foreign interest in Korean stocks, considered undervalued compared with those elsewhere in Asia, is strong.

But relief appears to be in sight with the announcement by the finance ministry in Seoul that the ceiling on foreign shareholdings will be raised from 18 per cent to 29 per cent by 1999. The offer was made to improve Korea's chances of joining the Organisation for Economic Co-operation and Development, the Paris-based club of industrialised countries, this year.

Most foreign brokers in Seoul agree that raising the shareholding ceiling above 25 per cent will essentially mean an open Korean stock market. "Foreign investors will probably have as much access as they want under the new guidelines," said one.

Nonetheless, there are complaints about the bureaucratic procedures that foreign investors must still endure to buy shares.

Each foreign investor must obtain an identification card from Seoul stock regulators and appoint a standing proxy and foreign exchange bank before trading in shares. Individual investors, although not institutional ones, also must put down a deposit guarantee with their broker before issuing a buy order.

"Few markets anywhere in the world are so regulated," said Mr Philip Smiley, chief representative of Jardine Fleming Securities in Seoul. "These bureaucratic hurdles are not likely to be removed until the nominal foreign shareholding limits are abolished."

The cumbersome registration procedure is one indication of the suspicions that Korean officials harbour about foreign investment even as Seoul seeks OECD membership.

Indeed, South Korea is distinctly ambivalent about the OECD process. "We believe we deserve to join the OECD because we are now the world's 12th largest economy. It's a matter of pride for us," said an aide to President Kim Young-sam.

But officials are then quick to warn of economic chaos if Korea is forced to accept fully the OECD conditions for membership.

The biggest obstacle to immediate reform is that the wide gap between domestic and foreign interest rates must be narrowed before the gates are opened to increased investment from abroad. Otherwise, current high Korean interest rates would attract huge capital inflows that threaten to destabilise the economy.

Korean officials fear that the full opening of financial markets would lead to a surge of "hot money" into Korea that would stoke inflation, while causing currency appreciation that would damage the country's export industries.

However, Korea has recently introduced last-minute measures to speed financial liberalisation, such as engineering a fall in interest rates.

The threat that a wider opening of the stock market would cause inflationary pressure is being offset by ending restrictions on Korean stock investments in overseas markets. This would help restore balance to the country's capital account.

It remains uncertain whether Korea's new concessions will satisfy the OECD. Although the OECD's recent economic survey on Korea endorsed a measured pace to financial liberalisation, it nonetheless argued that the current process could be accelerated.

The OECD is also advocating that Korea establish a firm schedule for opening the bond market, achieving currency convertibility and eliminating remaining controls on capital inflows.

The demand reflects concerns among some OECD members that Seoul's economic reforms would slow once it gained OECD membership because there would be less outside leverage for reform.

Korean officials see the process differently: "Allowing Korea into the OECD now is the best course because it will strengthen the hand of economic reformers against those resisting change," said Mr Ju Chul-ki, the head of the foreign ministry's international economic affairs bureau.

Unless the wide gap in perceptions between the OECD and Korea is narrowed, Seoul may soon find its application put on hold.

John Burton

Towards the OECD: Korea's financial reform

RECENT PROPOSALS
- Abolition of restrictions on Korean investment in overseas securities
- Expanded limits on exchange rate fluctuations
- Foreign investment consulting companies to open subsidiaries in December 1997 and investment trust companies in 1998

NEW PROPOSALS
- Increase in the foreign shareholding ceiling from 18 per cent to 29 per cent by 1999, with its possible abolition in 2000
- Foreign securities houses and banks to be allowed to open wholly-owned subsidiaries in December 1998

UNFINISHED BUSINESS
- Lifting restriction on the foreign purchase of blue-chip bonds in the domestic market
- Abolition of controls on overseas borrowing by Korean companies
- Setting a deadline for full currency convertibility

Tokyo agrees cash for loans fiasco

By William Dawkins in Tokyo

The Japanese parliament yesterday gave final approval to plans to allocate government cash to help liquidate bankrupt *jusen*, or housing loan companies, and improve the financial system's controls.

Six financial bills needed to clear up the *jusen* fiasco, the consequence of excessive lending to overvalued property schemes, passed the upper house of parliament, the final legislative stage, after more than six months' wrangling between the finance ministry, banks and political parties.

The most controversial part of the scheme calls on banks and other institutional lenders to write off Y5,730bn ($52.6bn) of losses, relating to bad loans on undervalued property, and for the government to cover the *jusens'* remaining Y685bn of initial losses.

The bank-funded proportion could well be increased because of intense public opposition to using public money.

The enactment of the bills was "just the beginning of the government's efforts to solve the bad loan problem", Mr Wataru Kubo, finance minister, said.

Bank officials in Tokyo estimate that total losses of other ailing financial institutions could come to an extra Y30,000bn.

Yesterday's bills also include reforms which attempt to reduce the risk of a recurrence of similar problems.

Editorial comment, Page 11

ASIA-PACIFIC NEWS DIGEST

NZ volcano disrupts flights

Thousands of air travellers had their travel disrupted after New Zealand authorities yesterday banned all flights over much of the North Island, following a series of spectacular eruptions of Mt Ruapehu. International flights heading to New Zealand's leading international airport at Auckland, 250km from the eruption, were forced to turn back, while other aircraft were diverted to Wellington and Christchurch.

The flying ban will stay in force until the authorities are satisfied it no longer poses a threat to aircraft. Mr Martyn Gosling of the Civil Aviation Authority said the ash has cut visibility high in the atmosphere and could damage jet engines. Airline officials fear the shutdown may continue for another day, depending on prevailing winds.

Mt Ruapehu, a 9,176ft active volcano, is on the central plateau of the North Island beside three other potentially dangerous mountains. Mt Ruapehu contains some of the country's most popular skiing areas which were due to open for the winter season on Saturday. *Terry Hall, Wellington*

Strike wave threat to S Korea

South Korea yesterday appeared to be headed for a period of labour unrest with the country's largest car parts company going on strike and workers at five state-run companies threatening to walk out tomorrow. The strike at Mando Machinery, which represented the first main industrial action in the country this year, threatened to disrupt car production in Korea if it persists. Mando is a key supplier of brakes and steering wheels to Hyundai Motor and other car companies.

Meanwhile, workers of the Seoul underground system began work-to-rule actions in preparation for going on strike on Thursday. They are expected to be joined by other public employees, including those from the state-run telephone company, Korea Telecom. The public-sector workers are demanding to join a new labour confederation that has been outlawed by the government. *John Burton, Seoul*

Securities officials arrested

South Korean authorities yesterday arrested two senior officials of the country's securities market watchdog body in connection with a bribery scandal, a prosecution official said. They also formally charged the former head of the Securities Supervisory Board with taking Won 80m (about $100,000) in bribes, he added. In addition, corruption charges were brought against a former senior finance ministry official, the chairman of one of the country's top 30 industrial conglomerates, the Miwon Group, and heads of four companies. *Reuter, Seoul*

Worries over HK human rights

Amnesty International voiced concern yesterday about the future of human rights in Hong Kong after China takes the territory back from Britain next year. The London-based human rights group, in a global annual report made available in Hong Kong, highlighted the plight of thousands of detained Vietnamese asylum seekers, abolition of the elected legislature and repeal of the territory's Bill of Rights as areas of concern.

It also cited threats to the independence of the judiciary and inadequate safeguards against human rights abuses as further worries. "There was growing uncertainty as to implementation of human rights safeguards after the forthcoming return to Chinese sovereignty," the report's Hong Kong section said. Hong Kong authorities had been criticised for refusing to set up an independent human rights commission, Amnesty declared. *Reuter, Hong Kong*

NEWS: WORLD TRADE

Korea, China part company over jetliner

By John Burton in Seoul

A proposed Sino-Korean project to build a 100-seat jetliner collapsed in acrimony yesterday and threatened to dash Seoul's immediate hopes of creating a civil aviation industry.

However, the regional airliner project is likely to proceed under Chinese leadership, with technological co-operation from an European aircraft consortium and financial support from Singapore, according to officials in Seoul.

The government-sponsored Sino-Korean project had been bedevilled by disagreements since it was announced in 1994, with Beijing and Seoul vying for the final assembly plant.

Chinese negotiators, during a meeting in Beijing yesterday, rejected a final Korean proposal that the aircraft would be assembled in China and finished in South Korea.

Chinese officials said the proposal would add to the cost of the $2bn project, while China had the strongest claim to the assembly plant since it would provide the biggest market for the regional airliner.

The two nations also clashed over their respective shareholdings in the project. Under their original agreement, China and Korea would each have a 35-40 per cent stake.

But Beijing recently proposed sharply reducing Korea's shareholding, while increasing the stakes for the Aérospatiale-led European consortium and Singapore Technologies Aerospace (STA).

Korean officials protested that China had unilaterally decided to select the European consortium, which includes British Aerospace and Alenia of Italy, as the project's technical partner, while recruiting the participation of STA. Seoul had favoured Boeing of the US for the programme.

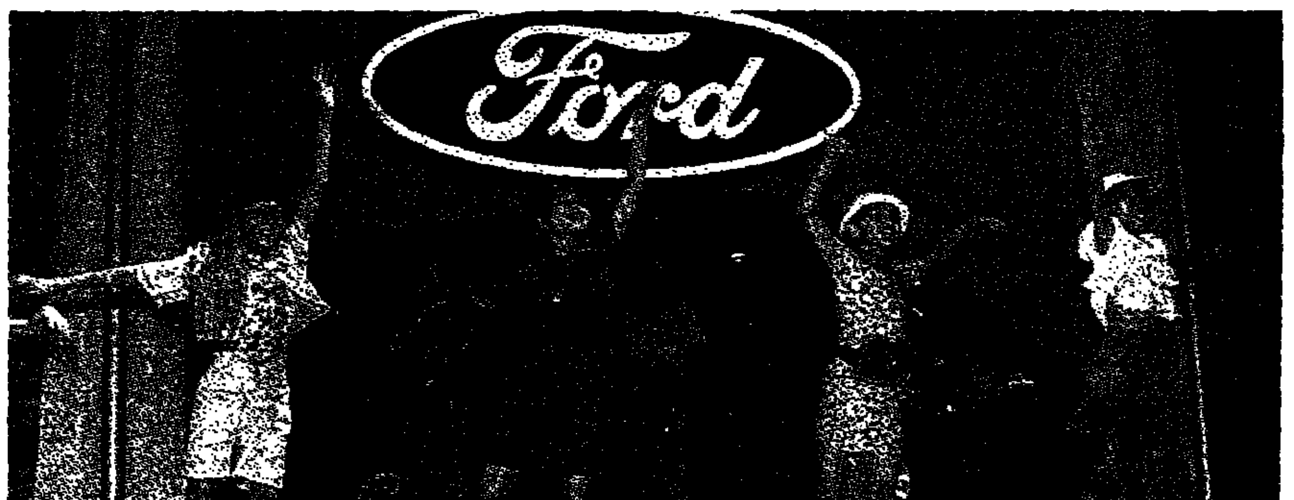
Aviation Industries of China is likely to hold 45 per cent in the revised project, with the Europeans obtaining 39 per cent and STA 16 per cent, according to South Korean officials. Taiwan Aerospace has also expressed interest in joining the project.

Officials in Seoul vowed yesterday that Korea would proceed with the development of a regional aircraft on its own. But the expulsion of Korea from the Chinese project represents a serious setback to its ambitions of creating a leading aerospace industry.

Although Korea possesses the financial resources, it lacks the technology and market potential that China offered to the partnership.

Samsung Aerospace, the main Korean partner in the project, earlier this year made a failed bid to acquire Fokker, the bankrupt Dutch aircraft maker, in anticipation that the alliance with China would collapse.

Samsung was hoping to obtain aerospace technology from Fokker.



A Chinese-built Ford van is promoted by dancing children at China Auto '96 in Beijing yesterday. Foreign carmakers flocked to the show, the biggest in China, where the car market is expected to grow into the world's largest within 20 years Reuter

China seeks to build on piracy pact

By Tony Walker in Beijing

China yesterday sought to build on Monday's agreement with the US over intellectual property rights by proposing an early meeting between the leaders of the two countries.

Mr Shen Guofang, the foreign ministry spokesman, said it would "help greatly if leaders from the two sides can have direct contact".

China and the US reached agreement at the last moment before Monday's deadline for sanctions on stronger enforcement measures to deal with counterfeiting of US entertainment and information products. They also made progress on market access for US audio-visual material.

Beijing has been pressing for more frequent high-level meetings for several years but the US has been reluctant until recently because of issues such as Taiwan, Tibet and human rights.

Mr Warren Christopher, US secretary of state, called late last month for the institution of regular summits as a way of repairing bilateral relations between Washington and Beijing. President Jiang Zemin of China and US President Bill Clinton meet at annual summits of the Asia Pacific Economic Co-operation forum (Apec) and met last year on the margins of the United Nations General Assembly, but Washington has shunned state visits.

Mr Shen said China was willing to make efforts jointly with the US to promote regular high-level contacts and he noted that "recently US leaders have shown positive signs".

This echoes recent remarks by Mr Li Peng, China's premier, who said that "Sino-US relations are somewhat improved compared with several months ago".

The ups and down in the political relationship have affected US companies doing business in China. Troubled Sino-US relations have prompted Beijing to suggest it would select companies from countries other than the US for projects.

Mr Vaughn Koshkarian, president of Ford Motors (China), speaking at Auto China '96, China's biggest annual car show, said he hoped the deal was a signal of continuing dialogue and would improve the outlook for US industry in terms of investment in China.

China also expressed the hope in the wake of Monday's agreement that the US would support more vigorously Beijing's attempts to join the World Trade Organisation.

"The United States has repeatedly said it would help China to enter the WTO and during these talks it again expressed its support," Mr Shen said. "We hope they can take action to realise their promise."

Editorial Comment, Page 11

US clashes with Hong Kong over textiles exports

By John Ridding in Hong Kong

Hong Kong and the US will hold talks today in an attempt to defuse a row over textiles trade, a Hong Kong government spokesman said yesterday.

The dispute has been triggered by a US decision, announced last week, which requires increased documentation for Hong Kong exports of certain categories of clothing. The move, designed to prevent breaches of rules of origin requirements, has drawn an angry response from the Hong Kong textiles industry.

Mr Henry Tang, the import and export industry representative in Hong Kong's legislature, described the US actions as "specifically discriminatory against Hong Kong". He called on the Hong Kong government to take the issue to the World Trade Organisation's dispute settlement body.

The row follows earlier clashes over US attempts to tighten controls on rules of origin for textiles imports. Plans to change the determination of origin from where garments are cut to where they are assembled have prompted criticism from the Hong Kong government, which has warned of disruption to trade. The present dispute centres on five product areas, including suits and skirts. Their combined value, in terms of exports to the US from Hong Kong, was HK$3.5bn (US$450m) last year, just under 10 per cent of the territory's total textiles and clothing shipments to the US.

Under the new US requirements, importers of these products from Hong Kong are required to submit, for each consignment, declarations from all manufacturers and subcontractors involved in its production. The aim is to prevent illegal shipments passing from China, through Hong Kong, to avoid quota restrictions on exports to the US.

"We understand that the measures are intended to tackle illegal transhipment," said a Hong Kong government spokesman. "But they are objectionable because they are being taken in the absence of evidence of illegal transhipment and because they affect both legitimate and illegitimate traders indiscriminately."

Miss Denise Yue, Hong Kong's secretary for trade and industry, has written to the US administration requesting deferral of the new measures, which took effect on Monday.

WORLD TRADE NEWS DIGEST

Vietnam asks to join Apec

Vietnam has asked to join Apec, the Asia Pacific Economic Co-operation forum, the 18-member grouping formed in 1989 to promote region-wide free trade. Membership of Apec would add to the existing pressure on Vietnam to reduce tariffs on most goods to 5 per cent or lower by 2006 under the Asean Free Trade Area (Afta). Vietnam joined Asean, the Association of South-east Asian Nations last July.

The US is also insisting that Hanoi dismantle trade barriers as the two sides work towards signing a trade pact, essential before Vietnam can be considered for Most Favoured Nation trading status.

A decision on including Vietnam in Apec, the only Asean member yet to join, is likely to take some time as Apec is preoccupied with whether and how far it should expand. Apec currently has a moratorium on increasing membership. "They're struggling to come up with criteria for membership," said a diplomat from an Apec member country.

Apec groups Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, South Korea, Taiwan, Thailand and the US. *Jeremy Grant, Hanoi*

Australia seeks lower CD prices

Australia's federal government is committed to ensuring lower prices for compact discs, Mr Warwick Smith, a minister in the new Liberal-National coalition government, told parliament. The Competition and Consumer Commission was monitoring prices and was to release its report soon, he added.

Over the past five years, Australia's music industry has fought to retain control over CD imports. As a result, these can cost up to A$30 (US$23.70), nearly 40 per cent more than in the US. Four years ago, the previous Labor government decided to amend the copyright law, arguing that competition from parallel imports would cut the cost of CDs. But the policy was watered down last year, allowing the "big six" record companies – Sony, EMI, Festival Records, BMG, Polygram and Warner – to maintain exclusive copyright ownership for imported new music releases, but subjecting them to price monitoring.

The revised policy also called for the record companies to invest A$270m over three years to develop local artists and manufacturing facilities. *Nikki Tait, Sydney*

ABB to build Kazakh plant

ABB Holland, part of the Swiss-Swedish group, said yesterday it would build, finance and operate a 320MW power plant in Kazakhstan. Mr Harry Shtoik, deputy prime minister of Kazakhstan, said the coal-fired plant would help ease chronic electricity shortages. Power cuts are frequent in the capital, and in northern Kazakhstan one region has been without electricity for months. The country's enormous oil and gas reserves are located far from most cities and have yet to be linked by pipelines.

The power plant should require up to $350m in investment and start production in 2000 if ABB obtains financing before the end of the year, said Mr Armin Meyer, executive vice-president of the ABB Group. Mr Meyer hoped to finalise a contract with the government by July 25 but said electricity fees had yet to be agreed.

Tractebel, of Belgium, and other companies have put similar projects on ice because the low rates in Kazakhstan, set by the state, would make construction of a new plant unprofitable. Two power plants have been sold in recent months to foreign investors who own nearby metal plants. Two other power plants will be auctioned this year. *Sander Thoenes, Almaty*

NEWS: INTERNATIONAL

Israel's first directly elected premier is discovering he's not quite a president

Netanyahu's Oval Office ambitions run into opposition

By Julian Ozanne

Mr Benjamin Netanyahu had his first taste of the limits of his power this week when senior veteran right-wing politicians ganged up to frustrate his ambitious bid for American-style presidential powers.

His efforts to concentrate authority in his own hands and choose a government which emasculates his own Likud party and marginalises his main rivals for power in the year 2000 yesterday looked set to fail.

Although he managed to name a skeleton government yesterday, three important portfolios – foreign affairs, housing and religious affairs – had to be kept vacant as Mr David Levy, the likely next foreign minister, and Mr Ariel Sharon, the powerful hawkish former general, exerted a power play designed to clip Mr Netanyahu's wings.

Forced to compromise in the complex coalition wrangling of the past fortnight, he has nevertheless demonstrated his determination to be more than first among equals in a new Israeli government.

Israel's new system of direct election of the prime minister which brought Mr Netanyahu to power last month gave the incoming premier the opportunity to imprint his individual style on Israel's British-shaped parliamentary political system.

In his negotiations, he tried to bypass high-ranking members of his own Likud party to appoint technocrats with no party affiliation to senior cabinet posts.

He asked Mr Jacob Frenkel, central bank governor, to be finance minister and Mr Yacov Ne'eman, a leading Israeli lawyer, to be justice minister.

In a series of tense meetings he threatened virtually every senior Likud figure, including Mr Sharon, that unless they accepted his terms they would have to stay out of the government.

He also set about building an all-powerful office of the prime minister staffed with those loyal only to him. He proposed the establishment of a National Security Council and said he would take control of privatisation, budgetary expenditure and the Land Authority and merge these government functions into his office.

"He is not satisfied with the turnabout which occurred on election day but rather seeks a real revolution – one which transforms Israeli government and politics at its very core," said Mr Hemi Shalev, a senior political commentator with the Ma'ariv daily newspaper. "Equipped with a basic law which grants him unprecedented authority, Netanyahu is surely paving his way to individual control with a tailor-made government and a Knesset (parliament) which can choose between servility or suicide."

However, Mr Netanyahu has been forced to moderate his ambitions. Likud politicians faced with being offered minor cabinet posts clubbed together to exert their demands for senior jobs.

First they forced Mr Netanyahu to drop Mr Frenkel as finance minister and appoint Mr Dan Meridor, a moderate senior Likud leader widely respected in Israel. Mr Frenkel has been reappointed central bank governor for another five-year term and is expected to head a new advisory council on economics.

And yesterday Mr David Levy, the de facto second power in the new government, said he would not accept the foreign ministry unless Mr Sharon was named to a senior cabinet post, probably housing. Mr Netanyahu had wanted to keep Mr Sharon, a hardline ultra nationalist unpopular in the west, either in a less important post or outside the government.

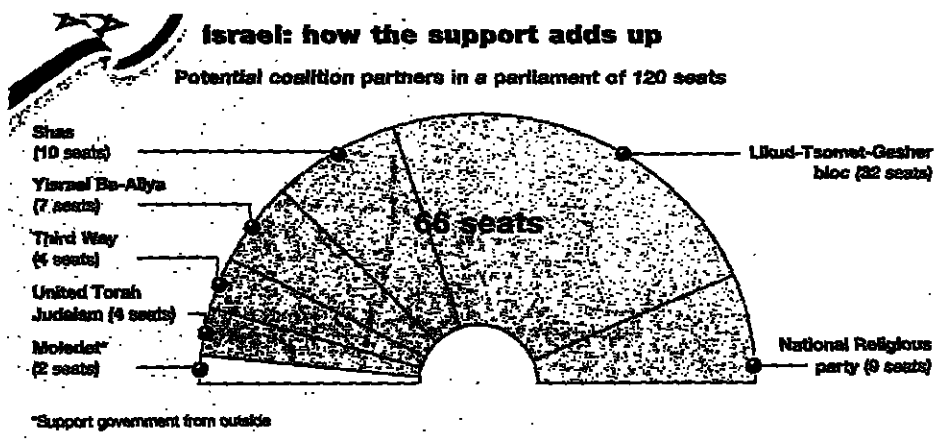
Although Mr Netanyahu will emerge from the coalition negotiations with less power than he would have liked, he will nevertheless wield more influence on government policy than any Israeli prime minister before.

Furthermore, his efforts to carry out a revolution in the dynamics of government point to his desire to move Israel towards the US political system which he studied while a student in Massachusetts and later as a senior Israeli diplomat in Washington and New York.

In advertisements during the election campaign he often appeared in a dark suit behind a Mahogany desk flanked by the Israeli flag which aides dubbed his "Oval Office." Unlike any other Israeli prime minister he has frequently appeared at political conventions and photo opportunities with his wife and has adopted many other mannerisms of US President Bill Clinton. And he used his considerable mastery of the television sound bite to devastating effect against Israeli prime minister Shimon Peres in the only television debate of the election campaign.

Although he has managed to fulfil only part of his effort to make Israel's premiership all-powerful, Israeli commentators believe the coalition negotiations are merely the opening round in a longer battle for power inside the government.

Frustrated: Mr Netanyahu found veteran rightwingers had ganged up against him AP



ISRAEL'S NEW CABINET

Premier	Benjamin Netanyahu, Likud
Foreign	vacant
Defence	Yitzhak Mordechai, Likud
Finance	Dan Meridor, Likud
Justice	Yaacov Neeman, Independent
Internal Security	Avigdor Kahalani, The Third Way
Education, Culture and Arts	Zevulun Hammer, National Religious Party
Agriculture and Environment	Rafael Eitan, Tsomet
Labour	Eli Ishai, Shas
Interior	Eli Suissa, Shas
Transport, Energy and Infrastructure	Yitzhak Levy, National Religious Party
Trade and Industry	Natan Sharansky, Israel with Immigration
Absorption	Yuli Edelstein, Israel with Immigration
Tourism	Moshe Katsav, Likud
Communications	Limor Livnat, Likud
Health	Tzachi Hanegbi, Likud
Science and Technology	Benny Begin, Likud
Housing	vacant
Religious Affairs	vacant

Amnesty calls for an end to export of torture devices

By Bruce Clark in London

The practice of torture, and methods of warfare that inflict great suffering on civilians have been facilitated by a growing international trade in morally repugnant weapons and devices, according to Amnesty International.

In its annual report, the London-based human rights organisation singled out the responsibility of arms exporting nations for the atrocities on the battlefield and in police custody.

It called for an end to all international transfers of devices, the sole practical purpose of which was the violation of human rights, including leg-irons, shackles and chains.

Amnesty said its international campaign to force armies and police forces to respect humanitarian norms was being undermined by the "rapid ... development in the industrialised countries of new security equipment that is now spreading fast to all corners of the world ..."

New non-lethal technologies, such as electric shock devices, "are spreading rapidly through international marketing in specialist publications and exhibitions", the report said.

Amnesty deplored the fact that the US, Russia and at least six European Union countries had supplied military and security equipment to Turkey, despite the "frequent and well-attested reports" of human rights abuses in Ankara's conflict with Kurdish separatists.

Amnesty had also urged the Australian government to avoid exporting rifles to Indonesia, on grounds that political dissent was being violently suppressed in east Timor, and questioned US military assistance to Colombia.

It continued to receive reports of "political arrests, unfair trials and summary executions" in Iran, while hundreds of suspected opposition figures and their relatives had been arrested in Iraq.

It deplored the execution of nine people, including two prisoners of conscience, after an "unfair and politically motivated trial" in Nigeria.

In Russia, there were numerous allegations of torture and ill-treatment in detention, including one instance where 11 prisoners awaiting trial had died. At least 28 people were judicially executed, while another 34 faced imminent execution. In the US, 56 prisoners were executed in 16 states, and more than 3,000 prisoners were under sentence of death. Amnesty protested strongly at the fact that chain-gangs – which "constitute cruel, inhuman and degrading treatment" – had been reintroduced in several US states.

The widespread use of leg-cuffs in the US had lent credibility to governments in Africa, Asia and Latin America which used leg-cuffs, fetters and shackles.

In Saudi Arabia, scores of political suspects, including possible prisoners of conscience, had been detained last year, and up to 200, arrested in 1994, remained in custody without trial and without access to lawyers.

Over 20 political prisoners had been convicted in Saudi courts after unfair trials, while one prisoner had been sentenced to death and reportedly executed.

In Pakistan, scores of people had been detained without charge or trial after security operations, particularly in Sindh Province. Torture, including rape, was widespread, reportedly leading to at least 70 deaths at the hands of Pakistani security forces.

In Burma at least 1,000 people involved in opposition parties remained in jail.

Amnesty International 1996 Report from Amnesty International Publications, 1 Easton Street, London WC1X 8DJ.

THE SUMITOMO AFFAIR

LME to go on attack over fictitious trade

By Kenneth Gooding and Clay Harris in London and Emiko Terazono and William Dawkins in Tokyo

The London Metal Exchange is likely to go on the attack today over the Sumitomo affair, to defend its handling of evidence that a Japanese copper trader made fictitious trades and to say there will be no financial casualties among its members.

The LME is expected to say Sumitomo Corporation was fully informed in 1991 after a London trader was asked by Mr Yasuo Hamanaka, its head copper trader, to provide a backdated invoice for a fictitious trade worth $250m. It will say Sumitomo accepted Mr Hamanaka's explanation and UK regulatory authorities, having no jurisdiction, could take the matter no further.

In the US, meanwhile, the US attorney's office in New York has begun a grand jury investigation of the Sumitomo affair and the Commodity Futures Trading Commission said it had attached the "highest priority" to its own investigation.

Sumitomo, which claims Mr Hamanaka was solely responsible for losses estimated at $1.8bn, said yesterday in Tokyo he had maintained a secret bank account for copper trading with a foreign financial institution.

Mr Mutsumi Hashimoto, vice president, said Mr Hamanaka conducted his trades through an account under Sumitomo's name, although he declined to specify at which bank.

Sumitomo's shares rose yesterday by Y20 to Y1,030 after a 16.5 per cent plunge on Monday. The copper market in London was becalmed. "Copper is stumbling around as the market tries to decided on which direction to take," said Mr William Adams, analyst at Rudolf Wolff, commodity brokers.

In a statement yesterday in London, Winchester Group, a UK broker, "vehemently" denied it was "in any way responsible for Sumitomo's losses which apparently stretch over a 10-year period". It added: "During the past 12 months, Winchester has had minimal involvement with Sumitomo. During that period, other brokers were heavily engaged in representing Sumitomo."

In the US, Mr John Tull, the CFTC's acting chairman, said: "It is essential that we identify and pursue any possible relationships that currently exist or did exist between Sumitomo and any other companies in connection with our ongoing investigation of the copper market."

Mr Tull said the CFTC would "examine any and all relationships, financial, or otherwise, between Sumitomo and any of the business concerns" whose identities had surfaced during its surveillance of the copper market.

Sumitomo denied allegations Mr Akio Imamura, Mr Hamanaka's superior and the company's director, had known about the trades in question. It also refused to comment on its outstanding long copper positions.

The company said it would strengthen internal controls for commodities trading. All trades would be double and triple checked, and that the time traders' spend in one department would be shortened.

Mr Hashimoto said Sumitomo might review plans to buy back its own shares in light of its copper losses.

Suspicion over metal exchange ambitions

By Emiko Terazono in Tokyo

The London Metal Exchange suspected Sumitomo Corporation's increasingly large copper investments were linked to Japanese government's plans to set up a domestic metal exchange.

Japanese authorities and business groups had agreed a decade ago to work towards the establishment of a Japan Metal Exchange, where futures, including those of copper and aluminium, would be traded.

In 1992, the LME sought further information through government channels after suspicion increased that the huge copper positions held by Mr Yasuo Hamanaka, Sumitomo's former head copper trader, were closely linked to the Japanese government's plans.

Unlike the US or UK, Japan lacks full fledged commodity futures markets, and only trades futures in a few precious metals and grains. At the Tokyo Commodity Exchange (Tocom), launched in 1982, trading remains insignificant compared to counterparts in the UK and US.

"There was a plan to create a JME which would compete against the LME, but that was 10 years ago," says an official at the Ministry of International Trade and Industry (Miti).

The government has wanted to develop a metal futures market because Japanese traders tend to be big players on overseas markets. "There were plans to set up a yen denominated metal market, it was linked to the concept of internationalising the yen," says a financial official. A former metals trader in Tokyo suggested "a player like Mr Hamanaka with his massive trades could have helped create an international market".

A study group based in Osaka held regular sessions on how a Japan Metal Exchange would work, and Miti officials confirm corporations including trading companies were among the participants. However, a government official says the idea to create a Japanese metals futures exchange has been scaled down.

Investment banks' losses estimated at up to $100m

By Nicholas Denton in London

Investment banks active in the copper options market have together lost up to $100m because of the extreme volatility of the metal's price this month, and they remain vulnerable to sudden moves.

The banks affected include leading dealers in commodity derivatives such as Bankers Trust, Goldman Sachs, J.P. Morgan, Lehman Brothers and Merrill Lynch, according to market participants.

Goldman Sachs said it had no comment. Morgan Stanley said it had suffered "no losses as a result of recent activities in the copper market".

Competitors have speculated that J.P. Morgan and Merrill Lynch have lost $100m each and Bankers Trust a further $30m. But those with knowledge of the companies said this was exaggerated.

J.P. Morgan, while repeating its standard policy not to comment on its financial performance, said it saw "no reason to depart from that policy". Ms Dianne Glossman, banks analyst at Salomon Brothers, interpreted this as meaning that J.P. Morgan's potential losses were not significant.

She said Bankers Trust probably lost some money through involvement in copper options but the amount would not be noticeable relative to overall earnings. Bankers Trust did not comment. Merrill Lynch said it had "no significant exposure" to the market.

The losses of derivatives dealers in the copper market are dwarfed by Sumitomo's $1.8bn deficit, and by the profits which hedge funds such as Tiger are believed to have made by taking outright bets on the market falling.

However, it is understood that at least two investment banks experienced losses of $10m on copper derivatives, and market participants said the losses were likely to be widely distributed.

Copper producers such as Phelps Dodge insure themselves against a drop in the copper price by purchasing put options from the banks, which give the buyer the right to sell copper at a set price.

Although recent volatility is unusual, investment banks said they regularly subject their portfolios to "stress tests", simulating market crashes.

Whitewater nourishes partisan politics

By Jurek Martin, US Editor, in Washington

If anybody had forgotten that the Senate Whitewater committee was made up of 10 Republicans and eight Democrats then the release yesterday of the majority and minority conclusions will have proved a salutary reminder that partisan politics are alive and well in Washington in this election year.

President Bill Clinton himself may have got off relatively lightly in the more than 700 page Republican report, presented by Senator Al D'Amato of New York. But the president's wife does not, nor do a host of close associates of the Clintons inside and outside the White House.

Mrs Hillary Rodham Clinton's alleged destruction of her law firm's billing files related to the Whitewater real estate investment, the report intones, "could constitute a breach of legal ethics and possibly a violation of law". Her "pivotal" role in the firing of the White House travel office staff in 1993 was "deliberately concealed".

More broadly, White House officials and the Clintons' personal friends are accused of a "highly improper pattern of deliberate misconduct" in frustrating federal investigations into the 1993 suicide of Mr Vincent Foster, then the president's deputy legal counsel.

It charged that Mr Bernard Nussbaum, then chief counsel, was "prompted by Mrs Clinton, Susan Thomases [a friend and adviser to the First Family] and senior White House officials and made a conscious decision to interfere with a federal investigation".

In one of its relatively few direct references to Mr Clinton, the report said the president was not entitled to use White House legal staff, "paid by the taxpayers to serve the public interest", as "the Clintons' personal defence law firm".

Mr D'Amato summed up his views at a press conference yesterday morning. "We have witnessed a pattern of deception and arrogance that undermines our system." Whitewater, he said, "was neither the end nor the beginning", thereby expressing his clear hope that it would be the beginning of the end of the Clinton presidency.

Report presented by Senator Al D'Amato delivered harsh criticism of Hillary Rodham Clinton

Senator Rod Grams of Minnesota, a Republican committee member, was even more succinct. "Hillary Rodham Clinton is at the centre of everything," he said, from events in Arkansas dating back to the late 1970s, to the Foster suicide and the travel office firings, and every attempt at obfuscation.

The tangled skein looks rather different in the shorter Democratic report, put out under the name of Senator Paul Sarbanes of Maryland. It defended the president staunchly, answering with "a clear and unequivocal no" the questions of whether he had abused the powers of his offices both in Washington and Arkansas.

"No credible evidence has been put forward", it went on, "to show that Mrs Clinton engaged in any improper, much less illegal, conduct". It regretted the "venom" the Republican majority had displayed from the outset of the committee's existence towards the First Lady. "Every act is portrayed in the most sinister light, every failure of recollection is treated as though the standard for human experience is total recall and a photographic memory."

The sharply different conclusions by representatives of the two parties may reinforce public perception of partisan politics at play, particularly since no new ground appeared to be broken in the reports.

Every allegation had been given full airing in more than 40 days of committee hearings – as well as in media reports and several books – and been denied by witnesses or the White House.

By contrast, the congressional Watergate investigations produced a broad bipartisan conclusion that grounds existed to impeach President Richard Nixon for "high crimes and misdemeanours". Yesterday even the Republicans could do no more than hint – and hope – that Mrs Clinton, but not her husband, might face legal charges.

Any such action would be in the province of Mr Kenneth Starr, the special Whitewater counsel, not Congress. A greater threat to the president may now lie in what he finds out about the FBI personnel files on prominent Republicans, among others, obtained by the White House in 1993-94.

On Monday night the White House confirmed that Mr Craig Livingstone, the head of its personnel office, had been placed on "administrative leave". That decision will surely set free the investigative hounds.

Ontario Hydro break-up offers a test of nerve

Ontario Hydro, with its long reputation as a bloated and inefficient monopoly, was among the targets of the "Common Sense Revolution" that the province's Progressive Conservative party promised to put in place after it took office in mid-1995.

A year later, a commission of inquiry has set the ball rolling by urging the government to break up North America's biggest power utility and to sanction a more competitive electricity market in Canada's industrial heartland.

However, political realities have tempered the proposals and could stall their implementation.

"There's no point in recommending a bunch of things which political instincts tell me and my colleagues are non-starters," says Mr Donald Macdonald, a former federal cabinet minister and Canadian high commissioner in London, who chaired the inquiry.

Ontario Hydro has a generating capacity of about 34,500MW from three nuclear power stations (with 20 generating units), 69 hydro-electric sites and eight fossil fuel stations. It also owns 29,000km of transmission lines and 250 transformer stations.

The utility has been squeezed from several sides in recent years. Although its rates are still lower than nearby US utilities, the gap has narrowed to the point where Ontario has found it more difficult to attract new industries with the lure of cheap electricity.

The utility's debt climbed steeply in the late 1980s, due partly to huge cost overruns in construction of the big Darlington nuclear station east of Toronto. Long-term debt reached a peak of C$35.6bn (US$26.2bn) in 1992.

The recession of the early 1990s gave Ontario Hydro a rude wake-up call. By 1992 generating capacity exceeded peak demand by 50 per cent. Ambitious expansion plans were quickly shelved and a tough austerity plan was put in place in an effort to cap spiralling electricity rates. The payroll has been chopped from 29,000 in 1992 to 21,000.

Meanwhile, technological advances have improved the economics of building relatively small power plants. Many non-utility power generators, such as mining and forestry companies, have clamoured to sell surplus electricity to Ontario Hydro. The utility has already contracted to fill about 8 per cent of its needs from outside suppliers by the end of the decade.

The pressures of the past few years brought the Macdonald commission to a clear conclusion. "There is no longer a need for a single large supplier to invest in massive generating stations," the report said. "Most consumers – large and small – support increased choice and flexibility in products and services, as well as efficient and accountable rate structures."

Borrowing heavily from experience in the UK and the Australian state of Victoria, the commission urged that the retail market be opened to full competition. A non-profit "system operator" would oversee the distribution of electricity from suppliers to customers and an "electricity exchange", including a futures market, would bring together generators, purchasers and their agents and brokers.

Ontario Hydro's transmission assets would be hived off into a new "transmission grid company", financed by a levy on generators. The 307 existing local distributors, more than three-quarters of which serve fewer than 5,000 customers, would be rationalised and re-organised along commercial lines. The non-nuclear generating assets as well as Ontario Hydro International, which sells know-how to foreign utilities, would be privatised. But the nuclear power stations, making up almost two-thirds of generating capacity, would remain in the province's hands.

The nuclear assets would be split up into four entities which would be encouraged to compete against one another, for instance, by offering performance incentives to managers.

Any proposal to sell off the nuclear stations would have sparked a furore. A debate is still raging over the disposal of spent nuclear fuel rods, and plans are not yet in place for the eventual dismantling of the nuclear generators. Privatisation would probably still leave the government saddled with huge contingent liabilities.

The commission made a number of other concessions to political sensitivities. It recommended that a small but symbolically important hydro-electric station near the Niagara Falls remained in public hands; the Power Workers' Union used pictures of the plant in TV advertisements earlier this year to warn of the threat of privatisation.

The provincial government plans to take the public's pulse over the next few months before deciding how, when or even whether to proceed. Mr Macdonald acknowledges that a "pretty substantial" body of public opinion favours leaving Ontario Hydro as it is.

Support for change comes mainly from big business, as well as investment bankers, consultants and lawyers who stand to rake in handsome fees from the re-organisation and privatisation process. Ontario Hydro's management, which has tried to put the utility on a more business-oriented footing in recent years, also favours further reform.

Critics, led by the Power Workers' Union, are likely to tap into some emotive arguments. According to Mr John Murphy, the union's general secretary, "the average consumer will end up subsidising not just lower energy costs for corporations, but also profits for foreign shareholders of our electricity system."

The critics will also hammer home the message that the Macdonald report would be the not-so-thin edge of the wedge. A union official predicted that the proposed transmission company and the reorganised distribution entities "would be ripe for private equity".

He may be right. If the government decides to accept the Macdonald proposals and if it can show that the changes would produce a more efficient system and cheaper electricity, the chances of it pressing on further will grow. The big question is whether the government will be willing to take the first step.

Bernard Simon

Nasdaq faces public censure

By Richard Waters in New York

The Securities and Exchange Commission and the National Association of Securities Dealers, which operates the US's Nasdaq stock market, are in talks to resolve a long-running regulatory complaint against the screen-based market.

The settlement is expected to involve a public censure of Nasdaq, the US's second biggest stock market, though it is less clear whether it will be forced to change trading practices.

Censure would be a significant blow for the ambitious market, which is locked in battle with the New York Stock Exchange to attract the many US and foreign companies that have been drawn to the US capital markets in recent months.

Neither the federal regulatory agency nor the Nasdaq authorities would confirm publicly yesterday that they were negotiating the terms of a settlement. However, according to one person with knowledge of the talks, the SEC last week submitted the draft of a proposed settlement to the market, and this has now become the basis for negotiation.

The NASD, which has suffered more than 18 months of bad publicity since the SEC began its inquiry into Nasdaq practices, is thought to be eager to settle the dispute.

Concern about the market's trading practices was sparked initially by a study which questioned whether dealers were colluding to keep the spread between buying and selling prices artificially high, but quickly escalated to take in broader questions of how the market was run and regulated.

The NASD has already commissioned its own review of Nasdaq's operations and undertaken sweeping changes to its governance arrangements. The market is also in the process of recruiting 130 more staff to beef up its regulatory side.

Berlusconi lawyers win fraud inquiry delay

By Jimmy Burns in London

The Home Office, a London magistrate and the Serious Fraud Office face an unprecedented legal challenge over the way they co-operated with Italian police investigating the Fininvest business empire of Mr Silvio Berlusconi.

A High Court judge, sitting privately, has delayed the transfer to Italy from the UK of documents relating to the Fininvest case pending a judicial review of the way the UK authorities have conducted themselves.

The court ruling came after British lawyers acting for Mr Berlusconi and his Fininvest group had questioned the legality of a Home Office agreement to co-operate with the Italian authorities, the issuing of a warrant by a London magistrate, and the subsequent raid by SFO officers on a London business address in April.

The SFO seized 16 bundles of documents from the former offices of CMM Corporate Services relating to shelf companies set up on behalf of Fininvest by Mr David Mills, a London lawyer.

Mr Berlusconi's lawyers are also challenging the legality of the fact that Italian police officers accompanied the SFO on its raid, and subsequently were allowed to take notes of the documents seized.

Evidence alleging that the UK authorities acted unlawfully was presented in closed court last Friday. Yesterday lawyers acting for Mr Berlusconi said they were under instructions not to comment on the case pending a decision on the judicial review at a hearing due early next month.

However, the SFO is claiming that actions prior, during, and subsequent to the raid were carried out under the recently extended Section 2 powers created by the Criminal Justice Act 1987, which covers international co-operation in overseas cases of alleged serious or complex fraud referred by the home secretary.

Senior SFO officials believe that the outcome of the judicial review could have a significant impact on the way UK authorities assist overseas fraud investigators in others cases. "This is a potential horror story," a senior SFO official said. "Until this judicial review is resolved we don't know where we stand in terms of other international cases we are involved in, and that is potentially serious given that London is a centre for international financial markets."

Since the new powers on international co-operation came into force, the SFO has handled dozens of requests from international investigators, executing numerous search warrants and document seizures. One of its most recent raids was on an art gallery in central London together with agents of the Australian Attorney-General's department as part of an investigation into the affairs of Mr Alan Bond, the disgraced British-born Australian businessman.

Other international investigators who have recently been assisted by the SFO include Russian police investigating money laundering and Norwegian fraud investigators looking at an alleged large-scale foreign exchange dealing fraud.

Governments issue warning to Sinn Féin

By John Murray Brown in Dublin and John Kampfner at Westminster

The Irish and British governments yesterday told Sinn Féin, the Irish Republican Army's political wing, that it faced complete isolation unless it could prove it had dissociated itself from the terrorist group's campaign of violence.

Three days after the Manchester bomb that injured more than 200 people, Mr Tony Blair, leader of the opposition Labour party, warned that republicans could expect an equally tough approach from a Labour government.

Labour strategists said the party leader wanted to serve notice to Mr Gerry Adams, the Sinn Féin president, the futility of waiting for the next UK general election in the hope of a change in British policy on Northern Ireland. He suggested the US and other governments had been given a "telling lesson in the realities of the IRA".

Mr John Major, the UK prime minister, told the House of Commons "Either Sinn Féin is going to be a democratic organisation taking part in democratic politics or it's going to stay side by side as the reverse coin of the IRA, with intermingled membership, in which case it has no part in democratic politics whatever."

In Dublin, the Irish government said after a two-hour cabinet meeting that contacts with the IRA's political wing would not be cut off. However, Sinn Féin was being sent a series of questions asking it to declare its fundamental principles in the wake of the Manchester bomb. These were:

- Whether Sinn Féin would continue to give "political support" to the IRA's armed campaign
- Whether Mr Adams had gone to the IRA seeking a new ceasefire and, if not, why not.

An official said: "Our contacts with Sinn Féin were on the basis that the party was seeking to secure a new ceasefire. We now want to know whether that is still the basis."

The decision to review relations marks a hardening of official attitudes, and an effective end to the pan-nationalist approach to the peace process which saw the Irish government line up with Sinn Féin, the moderate nationalist Social Democratic and Labour party and Irish America in seeking a deal on Northern Ireland.

The latest government move comes amid signs of progress in the multi-party talks at Stormont, which reconvene in full plenary session for the second time today. Speaking in Belfast, Mr David Trimble, the leader of the Ulster Unionists – the largest pro-British party in Northern Ireland – said there "could be no more illusions as to what Sinn Féin and the IRA are up to. There is not a commitment to peace. Can anyone doubt that we have seen is merely the tactical manoeuvres to see if they can exploit the threat of violence?"

Mr Adams declined to say whether or not he had asked the IRA to restore the ceasefire. He said: "We clearly are a party which has suffered as a result of the armed actions of others and our focus has been and will continue to be the total end of all armed actions."

A security report commissioned by a bank with offices in Manchester predicted at the end of April that the city was likely to be targeted by the Irish Republican Army, Jimmy Burns writes. The report was prepared by private consultants Search Training International Ltd (STIL) for the Manchester headquarters of Coutts & Co, a member of the National Westminster Group. It listed Manchester and London as the cities most likely to be hit in a bombing campaign on the British mainland.

Major John Wyatt, the author of the report, said that before the Manchester bomb on Saturday complacency had spread through the business community on the UK mainland. "We found some of our clients sharing a certain amount of scepticism as to why they needed to improve their security."

Labour pledges pro-Europe platform

By Robert Peston in Bonn

The Labour party will fight the general election on a pro-European platform, Mr Tony Blair, the party leader, pledged yesterday. He acknowledged that this might make him vulnerable to damaging attacks from the Conservative government.

He would campaign "with pride" to end the "perpetual and negative isolationism" of the UK in Europe, he told the biennial conference of the German employers organisation, the BDI, in Bonn yesterday.

He said to applause that he had "no doubt at all" that the UK's future lay "at the centre" of the EU. However, his speech drew an immediate attack from Mr Michael Heseltine, the deputy prime minister.

The Labour leader would be "walked over by much tougher, harder people" in Europe, Mr Heseltine alleged. "It's a disgraceful speech, because what he's doing is telling the Germans what the Germans want to hear at the expense of British interests".

Mr Brian Mawhinney, the Conservative party chairman, said the Labour leader had shown that "he would turn this nation into a doormat upon which other countries could wipe their feet".

The jibes seemed to bear out Mr Blair's fears. The Tories would campaign "trying to portray a new Labour Government as selling out Britain to Europe", Mr Blair warned.

However he hoped and believed that the Tories were "making a mistake" in adopting this Eurosceptic approach, since he did not believe it reflected the true state of public opinion in the UK. "It is demeaning to my country . . . to be reduced to the margins of influence [in Europe]," Mr Blair said.

His support for European monetary union was nevertheless qualified. He promised that a Labour government would "work closely with Germany and others to help make sure EMU is given the best chance of working". His concern was that a single currency could lead to job losses and the rise of nationalism.

"It must work economically", he said, while acknowledging the benefits it was likely to bring in terms of "stability, transaction costs and interest rates".

It is very unusual for the leader of a leftwing opposition party to address this conference, attended by 1,300 German businessmen. His pro-European approach and opposition to excessive corporate regulation drew praise.

Mr Blair's business-friendly vision was described as "a [political] world turned upside down" by Mr Hans-Olaf Henkel, the BDI president.

Mr Jurgen Ruttgers, Germany's minister for the future, who spoke immediately after the Labour leader, said Mr Blair's speech was a "lesson for the opposition here".

Edward Mortimer, Page 10

'We have said that if beef is not resolved, it will dominate the European Union summit'

Foreign secretary firm on non-cooperation

By Bruce Clark, John Kampfner and Quentin Peel

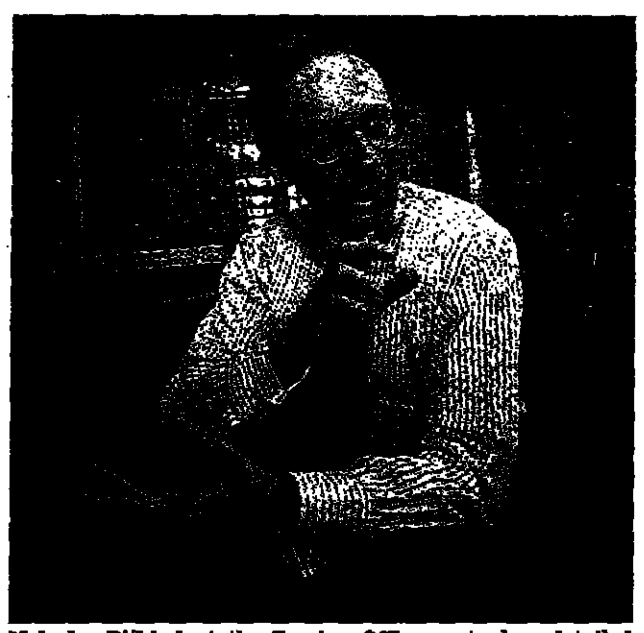
Much as he might want to, Mr Malcolm Rifkind cannot bring himself to acknowledge that the UK government has done anything wrong in its handling of the crisis over BSE, or "mad cow disease". The British foreign secretary has spent most of his waking hours in recent weeks containing the fall-out from the beef affair, and dealing with the backlash from his European partners.

He has traipsed around the capitals of the European Union seeking to explain his government's policy of non-cooperation on all EU decisions, as part of its campaign to get the ban on British beef exports lifted. He has been publicly and privately denounced by his fellow foreign ministers for the tactics. Yet he insists that they are going to pay off.

"We are prepared to continue this policy of non-cooperation until a framework strategy is agreed," he said in an interview yesterday. But he dismissed fears that the stand-off could last for months – possibly until a British general election next year.

"That is theoretically possible. But I think it is all rather melodramatic. I don't think it is going to happen. We are now into the detailed negotiation phase. We are in a totally different situation to where we were three weeks ago."

That was when the British government launched its non-cooperation policy. As a result, Mr Rifkind says, the European Commission was last night drafting a framework strategy to enable the phased lifting of the EU ban on British beef exports. He was cautiously hopeful that it might be approved at this week's summit of EU leaders in Florence.



Malcolm Rifkind at the Foreign Office yesterday: detailed negotiation to end the European Union's beef crisis has begun

He is anxious to play down the bellicose rhetoric of recent weeks. "It was the newspapers that adopted all this stupid rhetoric about war, and Falklands factors, and all that rubbish. Others have used the language about 'wrecking the summit'. We have not. But we have said that if beef is not resolved, it will dominate the summit. Everyone agrees it is the most important short-term problem. So that is what ought to happen."

Yet it is still uncertain whether the other member states will be ready to accept the Commission compromise. And it is also unclear that such a compromise would then prove acceptable to Conservative Eurosceptics at Westminster, who have been revelling in the confrontation with Brussels. It may well require the culling of more British cattle – 100,000, instead of the 80,000 proposed by the UK Ministry of Agriculture – to ensure that BSE is eventually removed from the food chain. That would be highly unpopular.

When Mr Rifkind's back is to the wall, he is at his most adamant, although his situation is certainly uncomfortable. He insists that the fault for the present impasse lies elsewhere: "We don't blame anyone else for the fact that BSE has a much higher incidence rate in the UK than in other countries," he says. "We don't say that it is someone else's fault that there is a scientific awareness now that didn't exist in the past.

"Our grievance is when other countries are not prepared to accept the scientific evidence, and react instead on the basis of purely emotional public opinion. The idea that it is only the health of people in France or in Germany that is relevant, and not the health of people in Britain, is absurd."

He insists that the only legal basis for imposing a ban on exports of British beef should be public health, and not consumer confidence. "That is not a justification for a major breach in the single [EU] market," he says.

Nor does he see any reason to express remorse over British exports of contaminated animal feed to France, after it had been banned in Britain. "I was very alarmed when I first read the French press reports," he said. "I immediately made inquiries. The reality is very different.

"The ban introduced in 1989 was a ban on the sale of animal feed for cattle. It did not apply to pigs or poultry. The feed [that was sold to France] was clearly marked that it was feed for pigs and poultry."

British policy, the foreign secretary insists, is starting to pay off. After all, British consumers are buying 85 per cent of what they did before the "mad cow" scare. Rather smugly, he suggests that German policy has failed, in comparison. Their beef sales are running at only half the level they were. "They hoped that by banning British beef, they would [persuade their consumers to] buy German beef. It hasn't worked. The only way confidence will be restored in Germany will be if there is a resolution on a European-wide strategy."

He also rejects the suggestion that the "beef war" with Europe has failed to make any dent on the British government's unpopularity in opinion polls. "The purpose of the strategy was not to see an improvement in the opinion polls," he says. "It was to get a fast lifting of the ban. The real question is whether we are closer to getting that." Florence will deliver the answer.

UK NEWS DIGEST

Network PC race sharpens

A UK-based start-up backed by Mr Herman Hauser, founder of Acorn Computer, detailed its plans yesterday to become the first company in the world to launch a low-cost network computer. Newly formed NChannel plans to begin selling Acorn's NetStation network computer on October 11 and has placed a £399 ($610.47) price-tag on the machine which will be sold in the UK, the US and mainland Europe.

Companies around the globe are racing to build new machines based on a blueprint developed by Acorn under contract to Oracle, the US database software group, and since endorsed by leading technology companies including International Business Machines, Apple Computer and Motorola.

Acorn and NChannel hope to be able to bring the first machines to market because they have access to the core technology around which the device is built. Mr Hauser, who remains a non-executive director of Acorn, believes that devices like the NetStation will help change the way people communicate and will pave the way for "e-mail for everyone", resulting in the decline of the fax machine and conventional mail.

The book-sized device which is designed to be simple to use, plugs into a standard television set and telephone line to provide viewers with access to the Internet.

Paul Taylor

Insolvent ostrich company is wound up by judge

The Ostrich Farming Corporation, the now insolvent company at the centre of a pyramid-selling investment scandal, was "redolent with wrong-doing", a High Court judge said yesterday. Ordering the winding up of OFC, which went into liquidation in April, Mr Justice Lightman asked the Official Receiver to carry out the fullest investigation into the company.

Those behind the scheme, in which investors were offered large guaranteed returns, were "shadowy and dubious individuals", he said. Millions of pounds of investors' money had been diverted out of the company which had been used as a "milch cow by people up to no good" he said. There was a long history of "exotic devices" being marketed to fleece investors and the ostrich farming "scam" was the latest of these, the judge said.

John Mason, Law Courts Correspondent

Recovery plan 'supported'

LLOYD'S
LLOYD'S OF LONDON

A senior civil servant at the Department of Trade and Industry yesterday expressed confidence that Lloyd's of London would win Names' support for its recovery plan this summer. Mr Jonathan Spencer, director of insurance, said Lloyd's was not taking success for granted but "the signs seem to be that the membership at large will give strong support" to the plan, which includes a £3.1bn ($4.74bn) out-of-court settlement offer. Without sufficient support from Names this summer, Lloyd's future will be in doubt. Names are members whose assets have traditionally supported Lloyd's.

Ralph Atkins, Insurance Correspondent

Jersey law debate delayed

The Jersey parliament yesterday reluctantly postponed a debate on legislation which would allow major accountancy firms to set up on the island as limited liability partnerships. The liability debate will now take place on July 9.

Philip Jeune and Jim Kelly

Telstra wins BAe contract

British Aerospace has signed a contract worth an initial £2.5m ($3.82m) a year with the UK subsidiary of Telstra, the largest Australian telecommunications carrier. It is the largest deal so far for the Australian carrier which last week extended its services to the whole of the UK. BAe has significant investments in Australia and has plans to develop into Asia-Pacific markets.

Alan Cane

Former News Corporation executive is investigated by Israeli police

Wire-tapping allegation is denied

By William Lewis in London

Police in Israel are investigating the former chief financial officer of a key part of News Corporation, the media group headed by Mr Rupert Murdoch, following allegations that he illegally tapped the phone of a former colleague.

Mr Leo Kreiger, former chief financial officer of News Datacom, part of the News Corporation group of companies, confirmed yesterday that he had been held by police in Jerusalem for 24 hours "on suspicion of wire tapping". Mr Kreiger also said that the police were investigating, but denied that he had carried out wire tapping and said that he had not been charged.

News Corporation group has an agreement with Mr Kreiger whereby it has been paying him in return for providing and analysing information relating to a £19m ($29m) legal action filed in London's High Court by several companies in the News group, including News International, its main UK subsidiary.

Mr Arthur Siskind, a News Corp director, has stated that the payment Mr Kreiger receives is in part dependent on News group recovering money from Mr Michael Clinger, a former director of News Datacom and a defendant in News group's High Court writ.

Jerusalem police are investigating whether Mr Kreiger illegally tapped phone calls in Israel involving Mr Clinger. In Israel there are strict rules covering the tapping of phones.

Part of the information passed by Mr Kreiger to News group, and being used by it in the High Court legal action, are transcripts of 13 separate taped conversations involving Mr Clinger. News group claims in its High Court writ that it has been the victim of a conspiracy to overcharge it for a vital component of its worldwide TV interests.

The News group companies' claim relates to the supply of "smart cards" to subscribers to BSkyB, the satellite broadcaster in which News group holds a 40 per cent stake, and other TV companies.

News group companies claim that "the price paid by News Datacom for smart cards has been artificially inflated" as a result of a long-running conspiracy between Mr Clinger, Mr Meir Matatyahu, a former employee of News group, Mr Bharat Kumar Marya, a businessman, and several companies associated with him termed by the News group as the "Marya companies".

Mr Clinger denies the News group allegations, as does Mr Marya. Mr Clinger has also served a substantial counter claim against News group.

BUSINESS AND THE ENVIRONMENT

Once derided as the "dirty man of Europe", Britain is seeking to outperform the European Union with new rules for recovering packaging waste that could revolutionise the fate of EU rubbish.

Five years after Germany devised the pioneering "green dot" system that inspired an EU-wide directive, Britain is neither the first EU state to comply with the legislation nor the most ambitious in terms of recovery targets.

It has not only set its targets at the lower end of the range of a directive which requires 50 to 65 per cent of packaging waste to be recovered by 2001 – rather than sent to landfill – and 25 to 45 per cent recycled.

After three years of gruelling negotiations with industry which ended only yesterday, Britain will also miss a June 30 deadline for transposing the directive into national legislation. The government expects to produce draft regulations to give the system teeth by the end of the month.

However, John Gummer, the UK environment secretary, claims that Britain's shared producer responsibility system – the only one hammered out with industry – will ultimately prove the fairest and most cost-effective way of complying with the directive.

This is an important principle at a time when many western economies are trying to lessen the burden of environmental regulation both for business and the public purse.

The new regulations will confer a legal responsibility on all companies in the packaging chain which handle more than 50 tonnes of packaging a year to pay for, or directly achieve, the recovery of set percentages of packaging waste.

These percentages are: 6 per cent for producers of packaging raw materials; 11 per cent for manufacturers of packaging; 36 per cent for "packer-fillers", such as Procter and Gamble, which put their goods into packaging; 47 per cent for retailers which supply packaged goods to consumers.

The method whereby companies calculate their obligation is best illustrated by the following example. Suppose XYZ Packaging manufactures 15,000 tonnes of corrugated board boxes. The calculation for the amount of packaging it is "responsible" for is: 15,000 tonnes x 11 per cent (the share for all converters) x 50 per cent (recovery requirement) = 825 tonnes. Its recycling obligation is 15,000 tonnes x 11 per cent x 15 per cent (recycling requirement) =248 tonnes.

According to one industry estimate, the rules will cost the 25,000 to 50,000 British companies affected between £250m and £500m a year by 2000. Although five times more expensive than Gummer's initial estimate of £50m to £100m, this still compares favourably to the annual DM4bn (£1.7bn) cost of the German system.

"Many business people believe the Germans got it wrong because they went for a collection-based system," says one UK official. "This means you end up collecting any old rubbish, unlike a market-led, recovery-based system which gives you nothing for a pile of stuff that contains old TVs." The idea is to encourage British companies across the board to minimise their use of packaging and, acting in conjunction with a new landfill tax, to promote more environmentally friendly forms of waste disposal.

In an attempt to make the system not only cheaper than the German system but more adaptable to local needs than Eco-Emballages, the unified French scheme for recovering packaging waste, the government has also insisted on allowing rival recovery schemes in order to promote competition.

Valpak, an embryonic collective scheme supported by a range of big companies across the packaging chain, hopes to pick up the legal obligations of between 50 and 80 per cent of British companies. Members of schemes will be charged a levy calculated according to the size of their individual obligation.

Leyla Boulton describes how new UK packaging rules could lead to better forms of recovery in the EU

The $64,000 waste question

John Durston, Valpak's director, says it will offer its members value for money by achieving significant economies of scale and freeing them from the burden of going out and finding packaging waste to recover. It expects to discharge most of its obligations by paying local authorities to collect and recover more packaging waste from households.

"Given that a market works really well today for 30 per cent of packaging waste, to get to 50 per cent we'll have to do things for which there is no economic pull," says Durston. Philip Olver, a spokesman for UK local authorities, says that what they need is a mechanism to stabilise volatile prices for the paper, glass and plastic they collect from households. "You can't keep switching the public on and off [from doing recycling]. We're not in the risk business."

However, some companies, such as the Body Shop, the cosmetics group which runs its own system of green boxes where customers can deposit its used plastic bottles, has already decided to go it alone.

John Wootton, chairman of the British Fibreboard Packaging Association, argues that the new rules "take the focus of attention away from people who are already doing a very good job recycling to a heavy administrative task of form-filling". The government says some administrative burden is the price to pay for involving all companies and driving up overall recovery rates.

But the big unknown is how far the new regulations will boost more self-sustaining markets for the collection and recovery of recyclable commodities. Given Britain's scarcity of waste-to-energy capacity, its recovery targets are basically recycling targets.

"That is the $64,000 question," says a UK official. He explains, however, that "a number of trends working in our favour" include the introduction in October of the landfill tax, and rising long-term demand for paper. "Against us there is the danger of over-collection, short-term gluts, the lack of a market and the cost of collection."

Although studies show that recycling for many materials makes both environmental and financial sense, collection systems in most of the western world remain heavily dependent on financial and regulatory support from the state.

Olver says a door-to-door collection scheme he spearheaded in his Adur district council in Sussex would cost £400,000 a year to run without corporate and local government subsidies. It generates only £60,000 in annual revenues. He is optimistic, however, that collection costs should fall as technology improves – for instance, with the development of rubbish trucks that collect both recyclable commodities and ordinary rubbish destined for landfill sites.

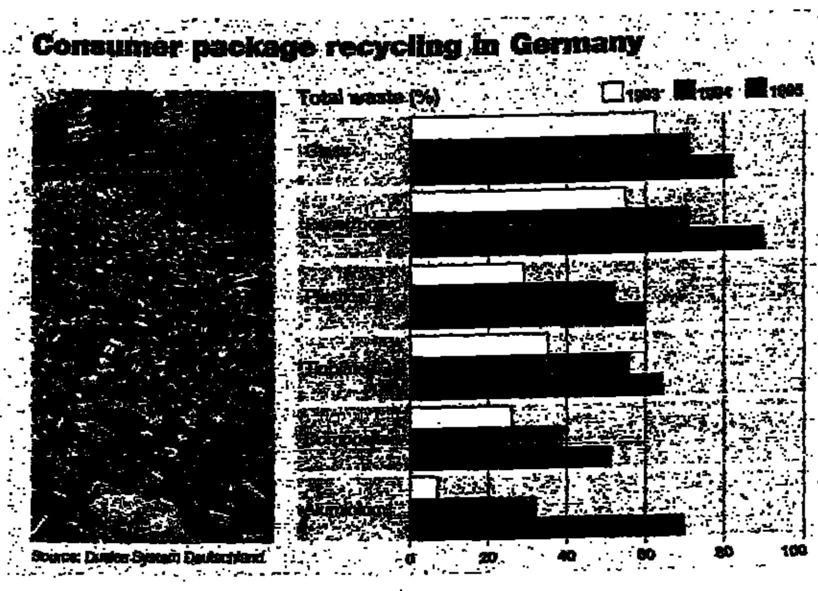
"Our efforts will look amateurish in future," says Olver. Peter Jones, business development manager at Biffa, a UK waste management company, agrees. He believes the new packaging rules, combined with the landfill tax, will trigger a "much more sophisticated approach" by the waste industry.

Until now, because it has been "so cheap" to put waste in the ground, industry has had little incentive to do much else with it. He says the industry's knowledge of what it collects is comparable to "Marks and Spencer making £4m a week without knowing whether it comes from booze or shampoo".

For free guide to regulations, write to James Devereux, Communications Director, Industry Council for Packaging and the Environment, Tenterden House, 3 Tenterden St, London W1R 9AH.

The UK government's Waste Minimisation Helpline is 0800 585794.

Consumer package recycling in Germany



Source: Duales System Deutschland

Pioneer paying too high a price

Germany's system of recovery is under pressure to change, writes Michael Lindemann

As most European Union nations struggle to comply with EU targets for recovering packaging waste, Germany, the pioneer in this field, is trying to mend some of the drawbacks of its own system, created in 1991.

The *Duales System Deutschland*, set up to oversee the recycling of packaging in Europe's largest economy, was created by 600 businesses in response to a draconian packaging law. This made sellers of packaged goods individually responsible for the collection and recycling of up to 74 per cent of packaging waste.

To meet the cost of collection and recycling, DSD levies a fee on the companies, borne mostly by consumers through higher prices and shown as a green dot on packaging. While Germany's lead inspired the establishment of EU-wide targets, other European nations are eager to avoid some of the costs and inefficiencies associated with the German system.

Above all, they are keen to spare their industries the kind of DM4bn (£1.7bn) bill imposed by DSD every year to recycle packaging which makes up only a third of all household waste.

"At DM4bn a year for what is just a percentage of total waste, it is arguably quite an expensive way to do it," says one Bonn-based European diplomat. DSD's quasi-monopoly has also irked smaller recycling companies which say the giant waste collector is squeezing them out of a profitable market.

In a modest effort to reform the system, the environment ministry is working with DSD on an amendment to the 1991 packaging ordinance which created the company. The government hopes to pass the amendment later this year or early next.

Most important, it would give local authorities powers to investigate and penalise so-called "free-riders" – companies which have their packaging collected and recycled without paying the DSD fee. Martina Kreck, spokeswoman for the DSD, estimates that the organisation loses about 20 per cent of its potential revenue because of "free riders".

DSD is proving less successful in persuading industry to display on packaging the cost of recycling to promote greater transparency of the system's costs to consumers.

It already bears much of the brunt of public anger about a doubling of refuse collection fees in the past two years. Eberhard Kanski, a spokesman for the Association of Taxpayers in Düsseldorf, says ordinary citizens have no idea how the money which they are charged for refuse collection is spent. Since 1992 the association has been demanding – so far in vain – that municipal rubbish collection be privatised to promote "more transparency".

One reason the costs have shot up has been the need to pay for incineration capacity that has become surplus as a result of DSD's success in collecting and recycling so much waste.

Based on waste statistics in the late 1980s, before the DSD came into being, a nationwide network of incinerators was planned. Many of them are now running at well below capacity, while new plants are still to be built on the basis of contracts signed years ago.

The city of Cologne, for instance, is going ahead with construction of a DM1bn waste incinerator even though four other plants in the nearby towns of Aachen, Düsseldorf, Bonn and Leverkusen have too little work.

Separately, the DSD faces a potential threat to its own finances from legislation requiring that 72 per cent of all drinks packaging should be re-used. The legislation stipulates that if the drinks industry falls below this level – which could soon occur as cans become more popular – manufacturers will have to introduce a deposit system for all bottles rather than just some.

This could prompt the drinks industry to withdraw from the DSD, taking with it another 20 per cent of DSD's revenues.

The DSD is lobbying to have that quota relaxed in order to keep its drinks industry customers on board. The rules are also being challenged by the European Commission as a potential trade barrier. In some areas of Bavaria, consumers have banded together to create "can-free" zones mainly in an attempt, say DSD officials, to keep small, local breweries – which have fallen on hard times – in business.

DSD officials point out that while the refillable principle makes sense for some locally-consumed drinks, the same cannot be said for Bavarian beer bottles which travel 800km to Hamburg and back for refilling.

But because of public sentiment about environmental standards, few people – least of all Angela Merkel, the environment minister – have dared to stray from the accepted wisdom about the so-called *Mehrwegflasche* reusable bottles.

"In Germany one cannot, as an environmental politician, dare to question the *Mehrwegflasche*," one DSD official says. "We have not got that far yet."

Television has played a more significant and serious part in British culture than has been the case in most other countries. In the US, France and Italy those with ambitions to express themselves in an audio-visual medium have tended to work for the cinema. In Britain many have worked for television. Consequently British cinema has been weak while British television has been strong. This has applied more to drama than any other area. Since the 1960s television drama in Britain has been at least as important as the novel, theatre, or the cinema as a medium for the expression of contemporary ideas.

This has not been true in the US where television has been considered largely in terms of ratings. There is some serious critical writing about television in the American press, but mostly you read about the competitive standing of the big networks or the vying between terrestrial television and the new technologies. When individual programmes are written about, it is in terms of success and failure, meaning whether or not they have made it to the top of the ratings.

It can scarcely be seen as mere coincidence that American television has been solidly commercial from the beginning. In Britain, with its mixture of public service and commercial broadcasting, there has been a benign tendency for commercial broadcasters to try to win some of the kudos of the BBC and for the BBC to aspire to the high ratings of its commercial competitors. The result has been that while there has been plenty of rubbish on British television there has also been quite a lot combining quality and popularity, and also a considerable amount of serious programming which has not had to justify its existence by winning big ratings. Now things seem to be changing.

Richard E. Grant and Susan Lynch in 'A Royal Scandal': the sort of idiosyncratic programme that British broadcasters must continue to create

Television/**Christopher Dunkley**

More than cops and docs

Once ITV broke new ground with *Armchair Theatre* and drove the BBC into inventing *The Wednesday Play*. In the 1980s ITV had the courage, initiative and originality to make *Muck And Brass*, a drama serial about city centre redevelopment and politics which was, in several respects, better than *Our Friends In The North*. Now ITV extrudes a monotonous succession of 60-minute drama series about policemen (*Frontiers*), more policemen (*Thief Takers*), doctors (*Bramwell*), more doctors (*Peak Practice*), detectives (*A Touch Of Frost*) more detectives (*Ruth Rendell Mysteries*) lawyers, customs officers, soldiers and so on. They are competently made, fairly entertaining, exportable, and earn a nifty profit. They challenge nobody's thinking, cause no worry, inspire nobody, and send me to sleep on the old green sofa.

I cannot say that I find much to choose between new age superstitions and the religious ideas that they are replacing, but it must be said that in television drama it is the Americans who are showing most imagination here. Series such as *Beauty And The Beast* (about a lion-man living under New York who befriends a female lawyer) and *Quantum Leap* (about time travelling) have led on to *The X Files* with its mixture of other-worldliness and police routine, and now *American Gothic*. Episode two goes out on Channel 4 tonight. It combines some of the horror content (more than has ever been included before in a television production) of movies such as *Carrie* and *Halloween* and an equal quantity of that surrealism-of-the-mundane which we saw in *Twin Peaks*.

The BBC and Channel 4 are still making drama which has something to say, the most notable recent examples being the duo by the late Dennis Potter, *Karaoke* and *Cold Lazarus*. However, these were dismissed in the London Evening Standard newspaper last week in a full page feature headed "Why Dennis Potter's dying opus flopped". It turned out that "flopped" was referring solely to the ratings. It seems that only 6.5 million people watched the opening episode of *Karaoke* and a mere 4.3 million the next, with 3.8 million watching the opening of *Cold Lazarus*. That may have disappointed the producers, but most creators of serious works with something to say – book, play, whatever – would not use the word "flop" in relation to an audience of 3.8 million, let alone 6.5 million.

The trouble with these trends (ITV restricting itself to formula drama, and what is left being judged in terms of ratings) is that those of us who have always treated serious television seriously are now tempted to exaggerate the virtues of anything with even the smallest degree of ambition. *An Independent Man* is a good example. On ITV's drama slot on Monday nights it tells the story of Freddie Patterson, owner of a string of hairdressing salons, who gets elected to the local council as a Conservative and promptly reneges to become an independent. Patterson is played by George Cole, which gets things off to a flying start, and the subject matter certainly makes a change from crime and the emergency services. But to be honest, the opening episode did not sparkle and if this is to become a second *Minder* – ratings and quality together – it is going to have to improve a lot.

Even more difficult is *Century*, last in BBC2's current season of "Screen Two". Written and directed by Stephen Poliakoff and starring Robert Stephens, Charles Dance, Miranda Richardson and Clive Owen, it was about science, progress, sexism and other major concepts – definitely not some trivial bit of mass production. The temptation is to celebrate it for wanting to go beyond police procedure and veterinary practice, but the truth is that it was written in that odd style of Poliakoff's, which sounds as though he is trying to draw attention to the artificiality of the dialogue, and hints at subterranean upheavals rather than presenting them clearly. Irritation and interest finally cancelled one another out.

Much easier to come to terms with was *Royal Scandal*, a drama about the Prince of Wales marrying for the sake of duty when he was already in love with someone else's wife, about the Princess finding sympathy from the press and public, and about their eventual cataclysmic bust-up – all quite true, of course, but taking place at the end of the 18th century. The Prince's name was George, and the Princess was Caroline of Brunswick. This was produced by Janice Hadlow and Tim Kirby and directed by Sheree Folkson on BBC1 not with the hackneyed ultra-realism of virtually all television drama today but in a nicely judged teasing semi-naturalistic style.

Not of earth shattering significance, perhaps, this was the sort of idiosyncratic programme that British broadcasters must continue to create if television is to be more than a babysitter for grown ups.

Spitalfields Festival/**Richard Fairman**

Diverse feast of new music

Less than ten minutes walk from Broadgate and other nearby financial headquarters, this is the city's other music festival. The Spitalfields Festival has to be carefully distinguished from its rival, the City of London Festival, which it always manages to precede by a couple of weeks in June.

Though the smaller of the two, Spitalfields has its own distinct profile. All its events are held in Hawksmoor's noble Christ Church on the fringes of the city and its artistic ambience has traditionally had more of the fringe about it too, although that may be changing. The church has won a substantial lottery grant for restoration and this year's festival includes performances by established names such as the Gabrieli Consort and Gothic Voices, Gustav Leonhardt and the BBC Singers, which all points to increasing confidence for the future.

On Monday evening the festival presented a double: a pair of concerts at 6.30pm (to catch the office workers) and 9pm, each a mirror-image of the other. Spitalfields currently has an artistic triumvirate of three active composers – Michael Berkeley, Anthony Payne and Judith Weir – who are generously keeping up a strong theme of new music without pushing their own.

Each of these programmes featured a premiere. In the early evening concert Thomas Bowes and Eleanor Alberga gave the first performance of Adam Gorb's Sonata for violin and piano. More a sonata in name than form, this was an 18-minute single movement with a fast-moving array of contrasting sections, including a tango-fugato and a waltz. Gorb's musical language includes syntax from various 20th-century masters, such as Stravinsky and Shostakovich, without sounding like any one in particular. It is definitely generic, but not unappealing.

The later concert brought a short song cycle, entitled *I'm nobody, who are you?*, by Julian Anderson. The impact of this first performance was blunted by the absence of texts in the programme and indistinct diction. But it was evident that Anderson's settings of these five Emily Dickinson poems went beyond merely providing an accompaniment to them. The vocal part, sung with restraint by William Dazeley, employed heightened inflections, repetitions and other effects: the instrumental parts, played by Bowes and pianist Julius Drake, had substance in their own right.

All the other items involved the Brindisi Quartet, who played a Ravel String Quartet full of strong contrasts and Chausson's Concerto for piano, violin and string quartet, in which Bowes was again the sensitive violin soloist. A further coupling came with a pair of Barber works, the favourite Adagio at 6.30pm and *Dover Beach* at 9pm, from which the church acoustic drained any words that might have been heard.

In between concert-goers could have dinner at one of the area's local restaurants, which provide a selection as diverse as anything else the festival has to offer.

Early evening concert sponsored by the Michael Tippett Musical Foundation. Spitalfields Festival runs until June 26.

Theatre/**Sarah Hemming**

Who Shall be Happy?

There is an interesting period of interregnum at the Bush Theatre, which is currently between phases as it moves towards a new artistic director and refurbished premises. From the ultra-contemporary drama that rounded off Dominic Dromgoole's directorship – plays written by young Londoners and set, in one case, literally around the corner from the theatre – we switch back to history plays.

Following on from Paines Plough's residency with a piece focusing on Samuel Johnson, we have the piquantly named Mad Cow Productions from Belfast with another two-hander. Trevor Griffiths' *Who Shall Be Happy . . . ?* is a passionate and gripping reconstruction of the last hours of Danton as, incarcerated in the Palais de Luxembourg in 1794, he awaits the result of his trial and tries to persuade his gaoler-companion to carry a letter for him.

Or is it Danton? Early on in the play we learn that a decoy has also been imprisoned, in order to confuse anyone with ideas of springing the hero. So which character do we have before us: Danton or a crazed actor who once played the revolutionary? Actually, as a plot device this is a bit of a red herring, since you are fairly sure from quite early on that this is the real man presenting himself as a impostor, but it allows the prisoner to barter with his keeper – both intent on self-preservation in different ways – and Griffiths to ruminate on the nature of identity, truth, trust and responsibility.

Deprived of liberty, fraternity and equality, the prisoner is left to grapple with the meaning of his life, with his own shortcomings and his real reasons for wanting to be freed. In between trying to bribe or cajole his keeper, he struggles to complete the question framed in the play's title, a question that takes him to the heart of the values enshrined in the revolution and, it follows, to the cornerstones of the modern age. Playing on his position, he taunts the audience, pointing out that while he is living in a time of hope, we are surveying him from a time of despair. But since his own identity is suspect and the play is laced with dramatic irony, we can perhaps take this as a challenge rather than an aspersion.

The piece was originally written as a television play and it tells – it is sliced into chunks so that you can almost pinpoint where the next change of camera angle might come. But it is absorbing thematically, rich with ideas, and entertaining. The writing soars and swoops with a mix of conspiratorial confidences, oratory and wit. Griffiths plays games with the idea of performance that runs through the play ("Our lives are much like the theatre," says the prisoner at one point; "indifferently written and scandalously short of rehearsal") teases you and embroiders the piece with enjoyable one-liners.

His production (Griffiths also directs) is sweaty and compulsive, a nicely judged double-act between Stanley Townsend's fleshy, feisty and volatile Danton and Kulvinder Ghir's cautious, astute and pragmatic gaoler.

Continues to June 29 at the Bush, London, W12 (0181-743 3388).

Ballet/**Clement Crisp**

One hell of an evening . . .

It was an evening which began with a crisis and decided to show that things could get even more tiresome. English National Ballet, this week on the South Bank, commissioned a series of one act ballets earlier in the year: a piece from the skater Christopher Dean; a work by company member Patrick Lewis; and a creation from Matthew Hart. The Hart piece was reportedly unfinished at the time of its scheduled showing, and was thus promised for this week's triple bill, which included the Christopher Dean opus and a staging by Derek Deane (ENB's director) of that brightest display of Petipa fireworks, the *Paquita* grand pas.

An hour before curtain-rise on Monday the leading dancer in Hart's *Blitz* was injured, and with no understudy, the ballet had to be cancelled and replaced by Patrick Lewis's *Unrequited Moments*. By all the traditions of fraught first nights, I should be reporting ecstatically upon the affair. Alas, whatever my good will to a troupe in distress, I can but say that I saw an evening of unrelieved mediocrity.

Patrick Lewis's choreography, fluently made, is the prisoner of its score – Walton's 1931 *Sinfonia concertante* for piano and orchestra. He offers an emotional tangle for two couples – Lisa Pavane and Dmitri Gruzdyev; Monica Perego and Greg Horsman – in which Miss Pavane lusts after Mr Horsman, treats Miss Perego bossily, but finally decides that she wants Mr Gruzdyev.

Development is rooted in the varied tempi of the music: an *allegro* means frisky activity; anything slower guarantees lust, bad temper (Pavane at times deeply miffed, as if she had found the chaps *in flagrante* among the rhododendrons), and a tendency to entwine oneself round the nearest body. Heads are so bent under the anguish of it all that dancers appear round-shouldered, and Pavane sports a Seriously Wronged Woman hairstyle. There are disastrous clothes by Tim Hatley, lead-coloured frocks from Suicide Modes; the men in bum-freezer shirts, and the cast, and your critic, had a hell of a time.

Worse followed. Christopher Dean's *Encounters* is, so alleges a programme note, about "relationships" that he has had. With noxious songs by Paul Simon as soundtrack, the action centres upon Thomas Edur, beset by six people whom one would seek to avoid even in a railway compartment. They include what I take to be a tough governess, a good-time girl in red, a mad-woman, and a frenetic teenager. (These may be usual companions for world-class skaters, but they scared the daylights out of me.) The choreography still has the chill of the ice-rink on it. The piece is wholly unworthy, and the noble Edur is trapped in it like an aristo awaiting the tumbril.

And so to *Paquita*. In 1970, the Kirov Ballet showed for the first time in London, on this same stage, just what this celebrated *feu-de-joie* is about: dazzling steps, supremely assured style, a sense of tradition. Nothing less will do. Derek Deane, concerned to challenge and enhance his dancers' skills, has made a version which is respectable enough as text, but failed in performance. The manner on Monday night was brisk, brusque. Grinning is no substitute for poise, and an aggressive way with the steps destroys any vestige of classical harmony. The tutus are inspired by sweet-wrappers, and Andrea Quinn's view of orchestral tempi owes much to Jehu.

London City Ballet to close

London City Ballet has gone into voluntary liquidation. The closure of the company, comprising 32 dancers and 19 musicians was announced yesterday by Harold King, its founder and artistic director. The LCB, set up 18 years ago, had an annual budget of £2.2m, 11 per cent of which came from the Arts Council, and a strong commitment to regional tours.

"This is a bitter blow for everyone," said King, who expressed determination to "find a way of starting again – if necessary by creating a new company of dancers and musicians to carry forward all that has been achieved by LCB".

INTERNATIONAL ARTS GUIDE

AMSTERDAM

DANCE
Koninklijk Theater Carré
Tel: 31-20-6226177
● Alle/Na(c)tion: a choreography by William Forsythe to music by Willems and Schoenberg, performed by the Ballett Frankfurt; 8.15pm; Jun 20, 21, 22, 23

BERLIN

DANCE
Staatsoper unter den Linden
Tel: 49-30-2082861
● Don Quixote: a choreograhpy by Bart to music by Minkus, performed by the Ballett unter den Linden. Soloists include Saidakova, Weber, Koch and Timptner; 7pm; Jun 20

BERN

CONCERT
Casino Bern
Tel: 41-31-221446/311 1446
● Berner Symphonieorchester: with conductor Armin Jordan and soprano Felicity Lott perform works by Chausson and Mahler; 8pm; Jun 20, 21

BRUSSELS

CONCERT
Théâtre Royal de la Monnaie
Tel: 32-2-2291200
● Anthony Rolfe Johnson: recital by the tenor, accompanied by pianist Graham Johnson; 8pm; Jun 21

CHICAGO

THEATRE
Steppenwolf Tel: 1-312- 3351888
● The Cryptogram: by David Mamet. Directed by Scott Zigler and performed by the Steppenwolf Theatre Company. The cast includes Zaks Lubin, Amy Morton and Marc Vann; Wed - Fri 7.30pm, Sat 5.30pm & 9.30pm, Sun 2.30pm; to Jun 23 (not Mon)

COPENHAGEN

EXHIBITION
Davids Samling - David Collection
Tel: 45-33 13 55 64
● By the Light of the Crescent Moon. The Near East in nineteenth century Danish art and literature: divided into three sections, the exhibition gives an overview of 19th-century Danish artists' portayals and perceptions of the Middle East; to Sep 29
The Royal Cast Collection
Tel: 45-33 91 21 26
● Inspiration in Plaster. Antiquity and the Danish Golden Age: the Royal Academy's collection of plaster casts of Greek and Roman nude male and female statues was an important inspiration for the art and outlook of the Danish Golden Age, and the casts were studied closely by men as well as women; to Aug 11

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-5296000
● Alceste: by Gluck. Conducted by Dominic Wheeler and performed by the Scottish Opera. Soloists include Mark Padmore, Isabella Vernet, Matthew Best and Stephen Holloway; 7.15pm; Jun 20

GENEVA

EXHIBITION
Petit Palais Musée d'Art Moderne
Tel: 41-22-3461433
● Les Neo-Impressionnistes: exhibition of some 70 works from the Neo-Impressionist collection of the Petit Palais. The display includes works by artists such as Albert Dubois-Pillet, Maximilien Luce, Charles Angrand, Van Rysselberghe and Van de Velde; to Sep 30

GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● The Royal Scottish National Orchestra: with conductor Edwin Paling, cellist Pauline Dowse, and flutists John Grant and Helen Brew perform works by Handel, Pachelbel and Vivaldi; 7.30pm; Jun 20

HAMBURG

DANCE
Hamburgische Staatsoper
Tel: 49-40-351721
● Romeo and Juliet: a choreography by John Neumeier to music by Prokofiev, performed by the Hamburg Ballett. Soloists include Janusz Mazon, Bettina Beckmann and Laura Cazzaniga; 6.30pm; Jun 21

LONDON

ART & ANTIQUE FAIR
Grosvenor House
Tel: 44-171-4956406
● Grosvenor House Art & Antiques Fair: for 10 days every June the Great Room of Grosvenor House provides the setting for this prestigious fair, bringing together some 90 international art and antiques dealers. The works on sale include paintings, furniture, ceramics, silver, jewellery and objects d'art; to Jun 22
THEATRE
The Pit Tel: 44-171-6388891
● The Phoenician Women: by Euripides. Directed by Katie Mitchell and performed by the Royal Shakespeare Company; 7.15pm; Jun 20, 21, 22 (also 2pm)

LOS ANGELES

EXHIBITION
MOCA at the Temporary Contemporary Tel: 1-213-621-6222
● Hall of Mirrors: Art and Film since 1945: this exhibition focuses on the relationship between cinema and the visual arts from approximately 1945 to the present; to Jul 28

MADRID

OPERA
Teatro de la Zarzuela
Tel: 34-1-5245400
● Le Nozze di Figaro: by Mozart. Conducted by Rubén Silva and performed by the Teatro de la Zarzuela. Soloists include William Shimell and Elizabeth Norberg-Schulz; 8pm; Jun 20, 22

NEW YORK

AUCTION
Sothebys Tel: 1-212-606-7000
● The Jerome Rapoport Collection of American Aesthetic Silver: including examples of the works of Tiffany & Co., Gorham, Whiting, Shiebler, Dominick & Haff, and Durgin; 10.15am; Jun 20
EXHIBITION
The Pierpont Morgan Library
Tel: 1-212-685-0008
● Being William Morris: A Centenary Exhibition: exhibition seeking to show a picture of William Morris in his various manifestations and careers: poet, novelist, illustrator and collector; to Sep 1

PARIS

EXHIBITION
Musée d'Orsay
Tel: 33-1 40 49 48 14
● Au Moyen Orient: photographies d'Henry Sauvaire (1831-1896): exhibition of a selection of 40 photographs taken in the 1860s in the Middle East by the amateur photographer, numismatist, scholar and diplomat Henry Sauvaire; to Jun 23

SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000
● An American Festival: Sounds of the City: the San Francisco Symphony with conductor/pianist Michael Tilson Thomas and the Kronos Quartet perform works by Gershwin, Cowell, Daugherty, Reich and Bernstein; 8pm; Jun 20, 21

STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-88 37 67 67
● Bamberger Symphoniker: with conductor Horst Stein perform works by Schubert and Bruckner. Part of the Festival de Musique de Strasbourg; 8.30pm; Jun 20

VIENNA

EXHIBITION
Kunstforum der Bank Austria
Tel: 43-1-5320644
● Drawing in Austria 1908 to 1938. From Schiele to Wotruba: exhibition of some 130 works on paper by 58 Austrian artists, including Gustav Klimt, Egon Schiele, Oskar Kokoschka, Alfred Kubin and Fritz Wotruba; to Aug 4

ZURICH

CONCERT
Tonhalle Tel: 41-1-2063434
● Tonhalle-Orchester: with conductor Vladimir Fedoseyev and pianist Oleg Maisenberg perform works by Tchaikovsky and Rimsky-Korsakov; 7.30pm; Jun 20, 21

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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COMMENT & ANALYSIS

Edward Mortimer

Illusion of comfort

Even on the pleasant shores of Lake Como, there are signs that the privileged lifestyles of Europeans are under threat

The Italians do not do things by halves. When their international affairs institute hosts the annual workshop of the Council for the United States and Italy, it serves up the cream of Italy's industrial, financial and political elite for the delectation of its American guests, along with a sprinkling of VIPs from other countries. And it does so in the magnificent setting of the Villa d'Este on Lake Como.

On one level, last weekend's meeting was merely a group of rich and famous people enjoying each other's company in suitably elegant surroundings. But if one listened carefully, there were echoes of the Titanic, or perhaps of Versailles in 1788.

As usual in such gatherings, "globalisation" was the buzzword; and in this company no one dared to suggest that it either could or should be avoided. No Buchanans or Goldsmiths were there to question the liberal consensus. But such people and worse do exist, as Edouard Balladur, the former French prime minister, reminded us. He saw world prosperity threatened by monetary disorder, especially the unstable relationship between the dollar and European currencies, and warned that "in politics there is not only reason but also passion". Nazism and fascism, he pointed out, had been reactions to earlier disorder in the world economy.

Otherwise it was generally agreed that globalisation is good for the globe. The chairman of one multinational company admitted to scrapping 50,000 jobs in Europe, but boasted of creating the same number elsewhere. "Mankind has rarely lived in circumstances which are as benevolent in economic terms," said Peter Sutherland, the former director-general of the General Agreement on Tariffs and Trade. But the "hegemony of Europe and its former colonies" was coming to an end.

"We must reduce our standard of living," intoned another European business leader, whose bronzed and sleek appearance suggested that there was indeed only one direction in which his personal living standards could significantly change.

Discussion on the European Union focused almost entirely on the prospects for economic and monetary union (Emu), with a few caustic asides about British beef, until a couple of US ambassadors chipped in to ask "what about enlargement?" Was Europe aware of its geopolitical responsibilities? Was it thinking seriously about enlargement at all?

The official answer, from the European Commission and from the presidency (the latter represented by the head of the Italian foreign ministry), was reassuring; the answers from the floor much less so. Norbert Walter, chief economist of Deutsche Bank, said that German industry, and especially German organised labour, was determined to keep both Polish coal and Polish migrant workers out of the European market. Sergio Romano, one of Italy's most distinguished retired diplomats, said that Emu and enlargement were inherently contradictory projects: the success of one would imply the failure of the other.

The new centre-left Italian government got a good reception. The views of Massimo d'Alema, leader of the Democratic Party of the Left (formerly the Italian Communist party), were clearly more to the taste of the assembled bankers and industrialists than those of the ex-fascist National Alliance or even Silvio Berlusconi's Forza Italia.

But it was also clear why. Next day's Italian newspapers headlined statements from Giovanni Agnelli, the recently retired head of Fiat, praising Mr d'Alema's speech and saying that a centre-left coalition is better placed to impose sacrifices on the working class than a centre-right one.

As if to ram home the point, the final session was devoted to "are the future costs of social welfare sustainable?", a question that manifestly expected the answer "No".

Peter Peterson, US secretary of commerce in the Nixon administration, regaled us with charts showing that in the next 40 years the number of over-65s in the US will increase more than 20 times as much as the under-20s, with many fewer workers to support each social security beneficiary. On present trends entitlement spending would by 2030 consume all expected federal revenues, leaving nothing for debt service, defence or education.

US social security, now just in surplus, would show a $765bn deficit by 2030, and rise steeply thereafter. This could be avoided, Mr Peterson said, by raising the retirement age, applying a means (or "affluence") test, and making more benefits taxable. But perhaps his most chilling statistic was that 34m Americans are paid-up members of the US Association of Retired Persons, which is dedicated to opposing such reforms.

In Germany, as Norbert Walter explained, the same dynamics operate but starting from a level twice as high.

Public sector health care and old age pensions are completely unfunded, and business pensions largely so. Indeed, the very notion of a funded pension scheme is not understood in continental Europe, where "pay as you go", with the currently active population supporting the inactive, has been the norm since 1945. It has now become unsustainable because the ratio of active to inactive is rapidly dwindling.

Only by lengthening their working lives, increasing their productivity and investing their capital in the developing world could Germans hope to generate the necessary income. But while we were enjoying ourselves on Lake Como, German trade unionists were demonstrating against such notions on the streets of Bonn.

Of course the situation in Italy is worse, as we heard from Carlo Callieri, vice-chairman of Confindustria, the Italian employers' organisation. Reform of the Italian pensions system, which defeated previous Italian governments, is the *sine qua non* of the new one's success.

Pity poor Tiziano Treu, the labour minister. He had to go straight from chairing this discussion to start negotiating with the Italian trade unions.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Shareholder value needs to be given real meaning

From Mr John Argenti.

Sir, You recently reported that a number of leading German companies, including, for example, Daimler-Benz, were beginning to embrace the concept of "shareholder value" ("Frankfurt pauses after impressive early burst", June 8). And then in the article "Investors acquire some savoir-faire" (June 14) you suggested that some leading French companies are doing likewise.

A significant number of British companies also claim to subscribe to this philosophy, but as yet very few indeed provide any figures in their annual reports to demonstrate what shareholder value they have actually achieved over the past year – let alone over a more meaningful period such as five years.

What shareholders really want to see is a simple record of their company's share price and dividends together with a calculation of the discounted return, preferably compared with some relevant comparator such as the sector average.

If we are serious about adopting this method of measuring overall corporate performance we need to develop an internationally recognised technique for reporting and calculating it and shareholders must press non-executive directors to encourage their companies not only to set corporate targets in terms of shareholder value but also to report their achievements explicitly in these terms.

John Argenti,
Pettistree Lodge,
Woodbridge,
Suffolk IP13 0HX,
UK

Rash of airline alliances confusing and a distortion of competition

From Mr Per Stenmarck MEP.

Sir, Having read your articles about the British Airways and American Airlines alliance, as well as the comments from Virgin Airways chairman Mr Richard Branson, and others, I would like to offer a few comments.

The alliances of the air carriers of Europe have really become a mess. Another example is the alliances British Midland has with Virgin, American Airlines, United, Air Canada, Cathay Pacific, SAS, Austrian Airlines, Alitalia, Iberia and TAP-Air Portugal. On the other hand, Austrian Airlines has code-sharing agreements with Swissair, Air France and Sabena (among others). This means that the consumer can buy a ticket from British Midland and end up flying with Austrian Airlines on a route operated by Sabena! This, even though Sabena has no code-sharing agreement with British Midland.

This code-sharing and alliance mess makes the consumer totally confused and entirely dependent on his or her travel agent to figure out which company flies which flight.

Alliances between air carriers have grown popular in the past few years. Due to increased competition and tougher rules on state aid, the airlines are now fighting back, trying to find loopholes in the regulatory framework.

This is, of course, not good – not for the consumer and definitely not for Europe.

I urge Mr Neil Kinnock, the EU transport commissioner, to take a good look at all the alliances and other agreements between airlines in Europe. The deregulation of the market, scheduled for next year, must result in better service and lower prices for the consumer and not a system of alliances and code-sharing agreements which are aimed only at distortion of competition and the raising of prices.

Per Stenmarck,
member, transport committee,
member of the EPP group,
European parliament,
Rue Belliard 97-113,
B-1040 Brussels,
Belgium

Nature has its way in EU

From Mr Fredrik Floren.

Sir, Nature has a complex relationship with the European Union. Last year's dispute over Greenland halibut with Canada caused deep tensions between the member states. This year, another animal causes widespread discontent. The long-term costs for the European Union could be substantial.

In international negotiations between the EU and external states it is utterly important to behave uniformly and show a high degree of commitment.

Both events demonstrate how external states can take advantage of the EU. First, external states should strive to use historic relations. Last year, Canada skilfully influenced the British public with history's emotional arguments to gain its support in the conflict.

Second, external states should carefully monitor internal tensions between the member states. Would there be a more suitable moment of going into conflict with the EU than spring 1996? Last year's fisheries conflict between the EU and Canada showed how fisheries problems between Spain and the UK spilled over into the international arena.

Plagued by internal tension and old historic relations, Community actions are more bark than bite. When the EU enlarges, it incorporates old historic relations. Establishing unanimity gets more problematic.

So for the sake of Europe, let's pave the way for more qualified majority voting in the realm of foreign policy at the current inter-governmental conference. Who knows what nature has planned for Europe in the near future?

Fredrik Floren,
S Esplanaden 5b,
223 54 Lund,
Sweden

Likely trend

From Mr R.E. Crum.

Sir, Re UK unemployment ("Clarke signals cut in economic growth forecast", June 13), is it not possible that one reason for the slightly mysterious behaviour of the labour market and unemployment lies in the changing population structure?

To put it crudely, numbers in the 20-29 age bracket have been falling by 2 per cent per annum over the past five years and are forecast to carry on that way for the next five. That is a reduction of 1.9m or 20 per cent in a key section of the labour force over 10 years.

In these circumstances, would you not expect the trend in unemployment to be down? It is not only that people are dropping out of the upper age brackets, they are not being replaced in the younger ones.

R.E. Crum,
89 Hall Road,
Norwich NR1 2PP, UK

Business sense should prevail over future of Gdansk shipyard

From Mr Mariusz Kuklinski.

Sir, Mr Henning Oldendorff, who on June 13 ("Gdansk shipyard closure condemned") and June 14 (Letters) claimed problems in Gdansk shipyard undermined Poland's credibility as an exporter, is entitled to worry about his contracts, particularly if he has signed them on the cheap, expecting political pressures would prevail over business sense in sorting things out – like they did when Mr James Callaghan's government made a gift of 22 heavily subsidised ships to Poland, to keep the Tyneside voters in jobs in late 1970s. In view of the low value added of the shipbuilding industry, he cannot, however, have both his ships built in Poland cheaply and strong credibility of Poland as an exporter.

As for the alleged "shock of the shipping community that the Polish government has arranged for its own state-controlled entity to go bust", I believe the community had ample opportunity to get accustomed to western governments running down their shipbuilding industries, to improve their nations' competitiveness. The case of Britain, where more than 20 shipyards were closed in the 1980s and in the 1990s, notwithstanding the protests of the trade unions, was well documented in the paper in which Mr Oldendorff advertised for taxpayers willing to subsidise his shipping business.

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Andrew Adonis

The rise of the judges

Are judges getting too big for their wigs? The question is being posed across the democratic world as courts play an increasingly forthright role in curbing governments and creating law.

Americans have long treated their judges as legislators. Europeans are coming to do the same. Britain is now before the European Court of Justice seeking an end to the ban on British beef exports which is threatening to paralyse the European Union.

In London, lawyers for Michael Howard, the UK's embattled home secretary, are rarely out of the dock defending his decisions from judicial review. His plans for tougher criminal sentences have attracted an unprecedented storm of off-bench judicial abuse, orchestrated by England's former Lord Chief Justice.

On the European mainland, Italy's post-war political edifice was brought down by a team of anti-corruption magistrates. The most celebrated of them, Antonio Di Pietro, recently became a minister, fitting recognition of his public standing.

Germany's constitutional court has become highly controversial, legitimising the post-war confiscation of land in eastern Germany by the communists and briefly outlawing crucifixes in Bavarian schools to preserve the religious neutrality of the state.

Similar tales can be told in Ireland, whose struggles over abortion and divorce have engaged its supreme court at every turn; and in South Africa, whose constitutional court last year abolished the death penalty in defiance of public opinion.

Unsurprisingly, judges have become fair game for the media and politicians. Nominations for the US supreme court are as bitterly fought as elections. European politicians from John Redwood, the UK Eurosceptic Tory MP, to Silvio Berlusconi, the former Italian prime minister, want to see the judges' wings clipped (albeit for different reasons).

This month, Lord Irvine, a pillar of the English Bar and Labour's shadow lord chancellor, lectured Britain's judges on "understandable public concern" about their role, warning them to respect the constitutional separation of powers and exercise "self-restraint to conserve their reputation for political impartiality".

So are we witnessing a judicial coup, with politicians being usurped by judge-made law, and courts progressively replacing parliaments as arbiters of public policy?

Discard such emotive language. There never was a golden age when legislators made the law, executives executed it, judges interpreted it, and the three powers kept off each other's turf. Nor has democratic theory, concerned with limited government and justice for minorities, ever suggested that this would be desirable.

As Richard Hodder-Williams, politics professor at Bristol university, puts it in a perceptive study* of judges and contemporary politics: "Any realistic conception of what is political must embrace some of what courts the world over do." This has always been true. Even in the UK, courts have for more than a century been required to act as arbiters in bitter industrial conflicts using law capable of fairly elastic interpretation.

> There never was a golden age when legislators made the law, executives executed it, judges interpreted it, and the three powers kept off each other's turf

The issue, rather, is whether supreme courts are becoming *more* political. In the case of the US this is hardly so. Virtually every US political crisis since the framing of the constitution has engaged the supreme court, including the civil war, the New Deal, racial segregation and Watergate.

The US supreme court's authority derives from three essential sources: from a bill of rights entrenched in the constitution; from a federal structure requiring adjudication between state and federal spheres; and from a popular culture which chronically distrusts politicians and wants them kept on a strict leash. In other words, the power of the justices is partly constitutional, partly cultural, and is underpinned by broad consent.

In essence the process afoot across much of the rest of the democratic world is an extension of this American approach to legitimate constitutional authority. Take the UK. Britain is now part of a loose federation, which is regulated by a written constitution in the Treaty of Rome. As a signatory to the European Convention on Human Rights, it also has a *de facto* bill of rights. Courts are, therefore, now required by will of parliament to play a role in deciding matters of high policy from pension rights to prison conditions.

It is much the same in most other democracies with written constitutions and bills of rights. The German land controversy is particularly telling. When German unification was agreed in 1990, Chancellor Kohl deliberately left vague the issue of restitution for victims of post-war expropriation in the east, anxious to upset neither the Russians abroad nor the voters at home.

Germany's constitution protects the right of property, and legal claims flooded in. The constitutional court was obliged to adjudicate, which meant it had to come down on one side or the other on a highly political question. By refusing to grant restitution – although in fact the issue has just been reopened – it was accused of betraying its duty to do justice according to the law. Yet its judgment accorded with the justifiable concerns of the Bonn government about the social and diplomatic implications of wholesale upheaval in eastern Germany. Either way its decision was bound to raise a political storm.

The third of the US influences – distrust of politicians – is equally important to the rise of the judges internationally. Italy is the most obvious case in point, where magistrates and courts have been instruments of public anger and revenge against a discredited political class.

Britain also reflects this tendency. As the reputation of Westminster politicians plummets to the level of journalists and estate agents, the judges are increasingly called on to safeguard political standards and to advise on sensitive policy issues. Lord Nolan and Sir Richard Scott did not launch their celebrated inquiries off their own bat: they were commissioned to do so by John Major, the prime minister, in the knowledge that parliamentary committees or such like could not hope to carry the same public credibility.

But who is to guard the guardians? A difficult question in theory. But in practice the judges are a supplement to, not a replacement for, elected politicians. If they stray too far from public opinion, they soon come to grief. As the old adage says of the US supreme court: it follows the election returns.

**Judges and Politics in the Contemporary Age, Bowerdean, £9.99.*

COMMENT & ANALYSIS

FINANCIAL TIMES
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US-China relations

Settlement of the latest copyright piracy dispute between the US and China has removed, for now at least, a serious irritant from their relations which threatened international economic stability. The agreement also strengthens President Bill Clinton's hand in pushing Congress to approve the renewal of China's Most Favoured Nation trade status. But any truce between Beijing and Washington is likely to be temporary unless they find a firmer long-term basis for their political dealings.

For a start, the agreement may not solve the main problem it purports to tackle. Mr Clinton presumably judges that China has promised enough to keep US software producers happy until after the presidential election. But Beijing has promised to curb piracy before. Unless it satisfies the US that it is serious about acting this time, further rows can be expected.

The two countries' relations are beset with other contentious issues, among them, China's bid to join the World Trade Organisation, Beijing's attitude towards Taiwan, and political sensitivity in the US to China's human rights record. In the current uncertain political climate, relatively small differences can flare unpredictably into big confrontations, to which both sides habitually respond with bluster, sabre-rattling and threats of retaliation. The Clinton administration's vacillating stance towards China has made matters worse - initially by confusing Beijing, then by diminishing US credibility.

Recently, the US has signalled that it recognises the need for a more coherent approach. It made much of this week's agreement as a step towards "constructive engagement" with China. That follows last month's speech by US secretary of state Warren Christopher, which sought to set out a clearer framework for bilateral relations. The challenge now is to turn these words into actions.

A priority must be to bring China into the WTO. US trade offensives, backed by unilateral sanctions threats, are a far from ideal way of integrating China with the world economy. That can only be assured by China's willing commitment to multilateral rules and disciplines. Beijing must still do much to meet the terms for WTO entry. But it is encouraging that recent political in-fighting has not prevented China from continuing economic reform and liberalisation.

Bilaterally, the most urgent need is for a much improved political dialogue, above all at the top levels of government. China yesterday renewed its call for a summit with the US - an idea Mr Christopher recently endorsed. Such meetings, if held regularly, could reduce mutual suspicions and misunderstanding, while encouraging better communications further down the chain of command.

Worthwhile rapprochement would almost certainly require both leaders to brave entrenched opposition and accusations of political weakness at home. And better dialogue would not prevent all clashes between Washington and Beijing: these are probably made inevitable by China's dizzying rate of internal change. However, regular communications between the two capitals could help them judge their responses better, and reduce the risk of confrontation turning into crisis. That, surely, is worth striving for.

Japan awake

Seldom have the green shoots of recovery needed such careful nurturing. Yesterday's GDP data for the first quarter suggest that the Japanese government's concerted efforts to revive the economy are having the desired effect. But it will be a while before it is strong enough to grow unaided.

Observers were rightly sceptical of the precise numbers unveiled by the Economic Planning Agency, which showed GDP growing at an annualised rate of 12.7 per cent in the first three months of 1996. Japanese GDP data are notoriously erratic; more reliable measures such as the Tankan survey have been less upbeat.

That said, the signs are that, in contrast to past false dawns, the acceleration in growth which took place during the second half of last year has carried over into 1996. But the surprise would have been if the economy had failed to respond to the triple stimulus of a roughly 20 per cent decline in the trade-weighted exchange rate over the past year, a ballooning budget deficit and a 0.5 per cent discount rate.

Neither the Ministry of Finance nor the Bank of Japan will want to keep the economy in such expensive care any longer than they have to. Indeed, some analysts have been predicting an increase in the discount rate in a matter of months. Yet there are three reasons why the central bank ought to resist such a move.

First, the financial sector is still extremely weak. Property prices have not yet stabilised - indeed, they are still falling - leaving the banks heavily dependent on continued low interest rates.

Second, and as important, is the fragile state of the real economy. The pick-up in household consumption reported yesterday is at odds with the slow pace of growth of related indicators such as wages and retail sales. Public investment is still the main engine of growth.

Which brings us to the third reason for keeping monetary policy on hold for now. The economy already has a significant tightening of fiscal policy to deal with over the next year; the 1996 fiscal stimulus package will have run out by the autumn, and consumption taxes are due to rise in April.

The government is still pondering whether to counteract this fiscal squeeze with a smaller stimulus package later in 1996. With luck, the recovery will be strong enough to survive without one of its present props. Removing both, however, would be a mistake. Throwing money at the economy can only go so far in addressing the country's deeper structural problems. But partial, short-term remedies are still a good deal better than none at all.

Race relations

Race is a thorny subject at the best of times, and racial discrimination in the workplace particularly so. In the UK it is not an issue dogged by the bitter controversies evident in the US. Yet the annual report of the Commission for Racial Equality, published yesterday, gives cause for concern at the degree of racial prejudice evident in British society.

The report's evidence is largely anecdotal. It ranges from the heated debate over the government's proposals to crack down on illegal immigrants, which generated and disseminated highly negative stereotypes of ethnic groups, through to cases of racially motivated dismissals and companies refusing to rent equipment to minority groups.

The degree of such prejudice and discrimination is hard to judge, and needs to be set against the remarkable educational and social advance of some of Britain's ethnic minorities. But few would deny that improvements in race relations remain an important issue for Britain's social cohesion.

The UK is increasingly multicultural. According to a study last week by the Office of National Statistics, ethnic minorities now comprise more than five per cent of the population and that proportion will double over the next 25 years. A deep sense of alienation among any social group threatens society as a whole.

The UK long ago outlawed overt racial discrimination. What next? The US has adopted affirmative action programmes and racial quotas in hiring practices. It is a route that has had some success in helping nurture the country's now-thriving black middle class. At the same time, as the present backlash against such initiatives demonstrates, they breed deep resentment in the broader population.

Evidence of discrimination in Britain does not justify such drastic action. A better route is to persuade companies that it is in their own interest to recruit and promote members of ethnic minorities. There are signs that this message is sinking in. A campaign by Business in the Community to increase awareness of racial issues among executives, and encourage them to recruit more from minorities and develop ethnic businesses, has garnered support from several blue-chip companies.

But until many of those same executives are themselves drawn from ethnic minorities, such campaigns will inevitably have a hollow ring. The challenge for Britain's business and political elites is to make themselves more racially representative of the society they lead. And to do so without quotas or equally undesirable legislative diktats.

Gilt-edged opportunities

The success of the UK's new repo market could improve monetary policy management, say **Graham Bowley** and **Richard Lapper**

Mr Ian Plenderleith, the Bank of England director and a chief architect of the biggest reforms of the UK government bond market in a decade, was in an ebullient mood when he addressed investors and bankers in London last week.

He described as a "palpable success" the latest stage of the reforms - the introduction in January of an open "repo" market allowing a wide variety of investors and traders to borrow and lend gilt-edged stock. "Nearly six months from launch, the gilt repo market is cruising confidently along the glidepath on track for the global market," he said.

The development of the repo market has so pleased the Bank of England that it has raised the prospect of using the new market to manage the UK's sterling money markets. The change could also help London remain a centre for money market operations after the scheduled introduction of European monetary union in 1999.

The repo market is the latest phase of a reform programme designed to modernise the gilts market where the government has borrowed money from bond investors for the past three centuries.

Several changes have already been introduced to make the gilts market more attractive to investors. More regular auctions have been introduced to make the market more predictable. And the variety of bonds has been reduced to make the market easier to understand.

A new market in gilts strips is to be launched in early 1997, allowing the interest payments on bonds to be stripped off from the principal and traded separately. Gilt strips can target the needs of certain types of investors - for example, those who want to invest for income at certain dates in the future.

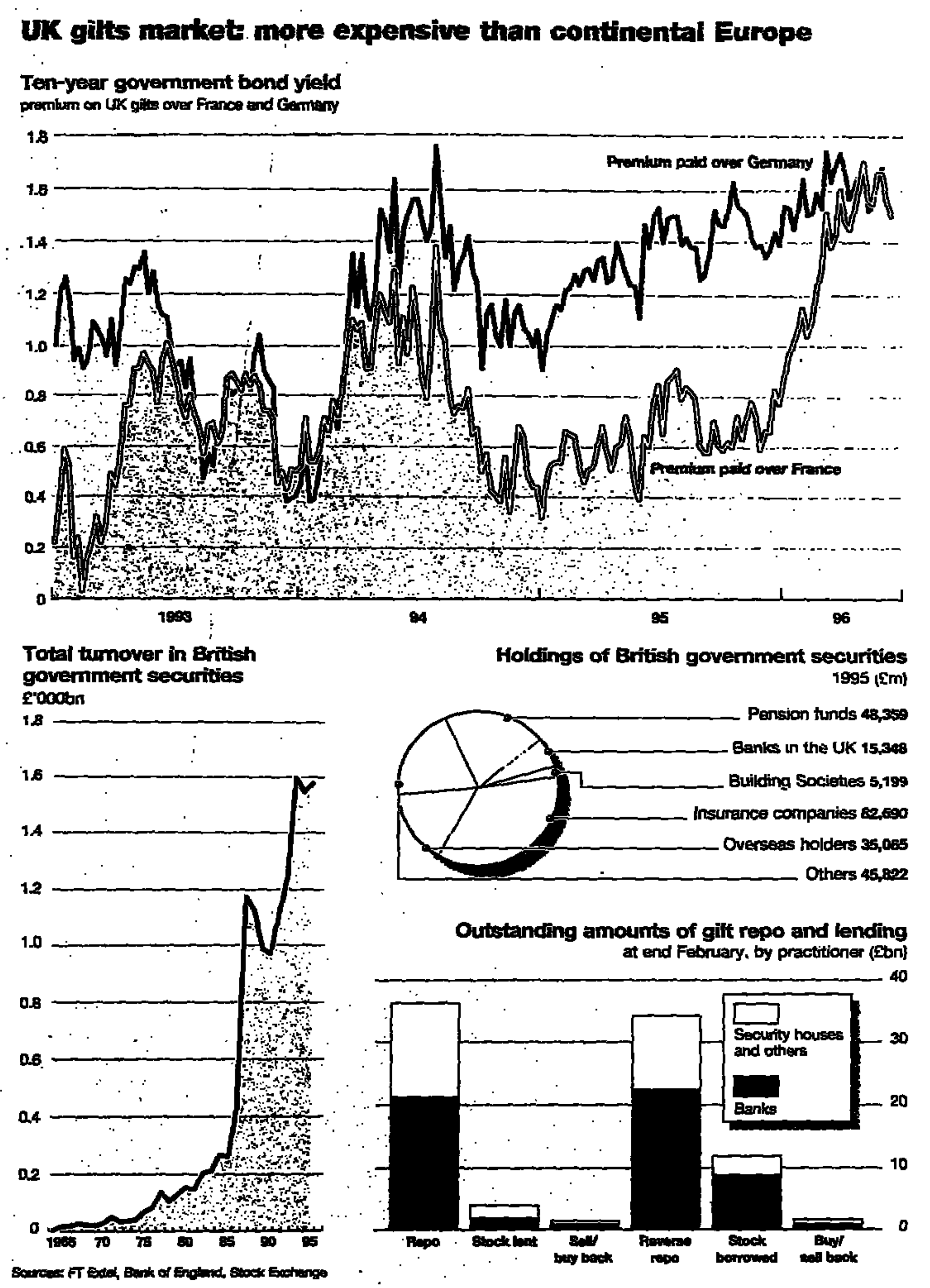
In a repo transaction, the owner sells a gilt for cash with an agreement to repurchase an equivalent gilt at a fixed date and at a predetermined price. In effect, the gilt is lent for a period in exchange for cash.

Under the previous arrangements anyone could borrow gilts, but they could be lent only by a small privileged group of securities firms and banks - the gilt-edged marketmakers, or Gemms. And for supervisory reasons the Bank stipulated all borrowing and lending had to go through another protected group of intermediaries called stock exchange money brokers.

This system came to be seen as old-fashioned, deterring some investors from coming into the market. And many of the large overseas investment banks operating in the London gilts market resented the privileges granted to the UK institutions.

It also made the cost of borrowing money in the bond market more costly for the Treasury than for other European governments. With fewer investors, a higher interest rate had to be paid to attract the necessary funds.

The introduction of a repo market has brought the UK system more into line with modern practices in other international government bond markets such as the US and France with the aim of attracting more investors. With an open market, all participants can borrow and lend bonds, making them more available, increasing trading activity and the gilt market's efficiency.



Sources: FT Extel, Bank of England, Stock Exchange

The market has grown quickly since January despite early problems with legal documentation. By the end of February the volume of outstanding gilt repos amounted to £36bn. Dealers now estimate that with daily turnover averaging £12bn, the figure has reached more than £50bn, with up to 100 institutions involved.

The UK repo market has taken off to such an extent that it will soon rival older and more established European markets. The Bank of England believes that with about £250bn of gilts in existence the market is set for continued growth.

"The market is as big or bigger than most people thought it would be at this stage," says Mr Peter D'Amario, director of repo marketing at BZW, the investment banking arm of Barclays bank.

The opportunities to borrow or lend bonds or cash are attractive to a variety of banks, securities firms, money and fund managers:

- Securities firms and banks can trade much more extensively in gilts. For example, they can take short positions - agreeing to sell a particular gilt without actually owning it - and use the repo market to acquire it.
- Securities dealers can finance the purchase of gilts more cheaply - they can raise the cash by lending the bonds they are about to acquire through repo deals. Dealers can currently acquire funds at an interest rate of about 6.25 per cent on the repo market, roughly a quarter of a percentage point less than would have been possible before the introduction of the new market.
- Fund and money market managers from central banks, building societies, hedge funds and industrial companies have begun to invest (or lend) some of their cash in repos rather than place it in on deposit with banks. Repos pay a lower interest rate than a typical deposit account but, as UK government bonds, offer greater security - a factor which some money managers have found attractive after the collapse of Barings Bank last year.
- Institutional investors such as insurance companies and pension funds have also begun to use the repo market - mainly by lending their huge portfolios of gilts to dealers for a return.

This use of the market has been slow to pick up, however - partially because institutions have not wanted the extra challenge of managing cash generated by repo deals.

"Structurally repo does not particularly suit institutional investors," says Mr Tony Baverstock, treasurer and head of stock lending at Clerical Medical, the life assurance and investment management group. "They carry cash and use cash, but it is not seen as a particularly important asset and it involves investment decisions they know little about."

Mr Mark Faulkner, an independent consultant with Securities Finance International, says institutions "are loathe to dedicate a lot of time energy and resource to this business".

They have preferred to continue lending through more orthodox lending agreements, in which bonds are loaned in return for a fixed fee. The volume of this kind of lending has increased, with the value of bonds loaned rising to more than £16bn in the first few months of this year.

The relative caution of institutional investors, however, has been good news for the stock exchange money brokers, which have lost their independence since January, becoming part of discount houses and securities firms and other groups. Although the introduction of an open repo market has taken away their privileged position at the centre of gilt borrowing and lending, they have proved adept at borrowing bonds from the institutions and then lending them out to the securities firms and other traders in the professional market.

One important effect of increased activity in the repo market has been a sharp decline since January in the volatility of money market interest rates. According to Mr Philip Busfield, head of gilts at Nikko Europe, the Japanese securities house, rates have become much more stable, trading in a daily range of about one-third of a percentage point, compared with one and a half percentage points last year.

"There are simply more places to shop around for overnight money. We are just not seeing the squeezes we used to see," says Mr Busfield.

Indeed the repo market is now so well-developed that the Bank of England believes it may be possible to use it to carry out its own daily operations in the money market. At present, it manages liquidity by buying and selling Treasury bills and some other bills with the discount houses. This allows it to match government spending with tax receipts.

If more bills are bought than are sold, cash is injected into the banking system; if more bills are sold rather than bought cash is drained from the system. The Bank also makes changes in base rates through these operations.

However the bill market is relatively illiquid: with only a limited number of discount houses, it constitutes a narrow channel between the bank and the broader pool of money in the economy. By using borrowing and lending gilts with a much wider range of institutions, the Bank could inject and drain cash through a more liquid market. This would also allow it to transmit decisions about interest rates more effectively.

Using repo to manage the money market could undermine the position of the discount houses. Yet the introduction of repo appears to have given them a new lease of life - so far at least. Four own stock exchange money brokers in the last few months, and have benefited from their success in borrowing bonds from institutions.

Mr Plenderleith is confident that repos have a role to play in money market management. "We may not be quite there yet but repo activity is approaching critical mass. We can now have much greater confidence that it will develop into a fully mature market."

One attraction of making this move is that other European central banks manage their money markets through repos. If the UK joins the European Union's single currency in 1999, its money market will in any case have to be adapted to the European pattern.

But even if the UK stays out of monetary union, the existence of a flourishing repo system will mean that London will stand a better chance of retaining a strong - if not pre-eminent role - in the continent's money markets.

· OBSERVER ·

Early birds catch worms

■ The spirit of enterprise is alive, well, and kicking - in Kansas, of all places, where a bunch of school children aged between five and eight have come up with an idea for a new, streamlined drinking water fountain, one that would cut users off after a five-second gulp. The idea of the five-second burst, it seems, is to prevent bigger kids from hogging the fountain.

Those junior inventors - plus others from across the US and Canada - will this Friday be shepherded to Washington DC to receive awards from the National Science Teachers Association and Toshiba, the Japanese electronics and energy company.

One group of precocious nine to 12-year-olds came up with something they called the "Amazing Med-Minder". This is a microcomputer-armed pill dispenser, programmed by a pharmacist to remind users how and when to take their medicine.

Beside the water-spout, other prize-winning schemes include: the brainy refrigerator that scans items as they go in and makes suggestions for dinner; a road made of chemicals that will fill potholes as they occur; and the 'Safe Star', a Christmas tree decoration that releases a fire-dousing powder chemical when its heat sensor is triggered. That one sounds like it has serious marketing potential - an ideal Christmas stocking filler, perhaps?

Mutual benefits

■ Calling all European Union toilers: where you live can seriously damage (or improve) your pay packets, family life and pension prospects.

If you fancy longer holidays, then Germany's the place to be. Public holidays and statutory vacations there amount to 27 days, but most employers top that up with another 15 days each year. Bottom of the holiday league table comes Ireland, with the UK running close, according to a new guide to employee benefits in the EU, compiled by consultants Sedgwick Noble Lowndes.

Or perhaps you are worried about your pension prospects? Then try Italy, or at least France. "Italian employers make the largest pension and benefits contributions on your behalf - costing them an extra 50 per cent of your salary - while French employers are not far behind, providing benefit contributions worth 46 per cent of salary."

If maternity leave is an important consideration, then opt for Sweden; employers there give a generous full year of leave, compared with an average of 16 weeks in most EU countries.

Roll on boring EU homogeneity. If becoming a unified federal state meant longer holidays, bigger pensions, more time with the family - then who would ever oppose it?

Bacchus rules

■ This is obviously Boris Yeltsin's week. First he manages to pull off what now seems a pretty good bet at achieving a second presidential term, so long as his alliance with Alexander Lebed holds firm.

Now a behavioural scientist at Penn State College of Medicine in the US asserts that having a few drinks doesn't necessarily diminish the ability to make important decisions. Siegfried Streufert studied 21 male managers who had several drinks the night before. He then placed them in various fictional situations, such as running a small country. "These people... believed they would perform poorly. Yet their decision-making performance was not affected", said Streufert.

Extra votes all round.

Conspiracy Carlos

■ Mexican ambassadors should be very wary if former president Carlos Salinas decides to live near them. It could seriously threaten their diplomatic career.

Although Salinas is in Ireland, he can't stay out of the Mexican press. His meeting on May 6 in Dublin with the leftwing academic Jorge Castañeda has spawned a raft of daft conspiracy theories, some of which suggested the two were plotting to force current president Ernesto Zedillo's resignation. So febrile is the political atmosphere in Mexico that this appears to have done for the diplomatic career of Mexico's ambassador to Ireland, Agustin Gutierrez Camet.

The hapless Gutierrez was in Rome when Salinas and Castañeda met. But his supposed role in facilitating the meeting (denied by Castañeda) appears to have led the government to invite him to perform his duties elsewhere - as ambassador to Haiti.

For some reason he declined the offer.

Drawn-out arias

■ The first opera written in Arabic, by the Egyptian composer Aziz el-Shawwan, gets its world premiere on Sunday - more than 30 years after it was written. Entitled "Anas al-Wogoud" (in English, "Gentle Companion For Life"), and based on one of the tales from "One Thousand and One Arabian Nights", it debuts at the Cairo Opera in an Egyptian-Franco production. "This opera... is the major achievement of Shawwan who turned this tale into a superb musical work to rival any of the world's great operas", says Yussef el-Sissy, conductor of the Egyptian orchestra. Better late than never.

The Financial Times

100 years ago

McKinley Nominated
Major McKinley has been nominated for the Presidency at the first ballot at the Republican Convention in St Louis. Mr. Foraker referred to Mr. McKinley's record as a soldier, as Governor of Ohio, and also as leader of the House of Representatives and author of the McKinley Bill. (Applause). The nomination was then seconded, and after Mr. Gray's name had been placed before the Convention, the roll call for the President was ordered.

50 years ago

Exchange Controls in Canada
Mr. James Ilsley, Canadian Finance Minister, told the House of Commons that the Government plans to continue foreign exchange controls because the world of the future may prove to be one of economic friction rather than one of co-operation.

A New Lagonda
Advertisement. "A completely new 2½ litre, 6 cylinder Lagonda is indeed a car worth waiting for. The new Lagonda will be the first completely modern high quality car available to the public. Although in the medium price range, it will offer outstanding performance with a maximum speed of over 90 m.p.h. and an average petrol consumption of over 20 m.p.g."

FINANCIAL TIMES
Wednesday June 19 1996

Beef crisis settlement may hinge on cattle cull

By John Kampfner and Quentin Peel in London and Neil Buckley in Strasbourg

The UK's Conservative government yesterday sought to prepare its Eurosceptics for concessions over the size of a cattle cull in an attempt at a settlement of the beef crisis at this week's European Union summit in Florence.

As European commissioners met to discuss a framework proposal for a phased lifting of the ban on UK beef exports, Mr Malcolm Rifkind, UK foreign secretary, said Britain was "theoretically" prepared to continue its policy of non-cooperation up to the last date for a general election next May.

But, in an interview with the Financial Times, Mr Rifkind said he was confident the government would receive the full confidence of Conservative MPs at Westminster for any deal struck at the Florence heads of government meeting, which begins on Friday.

Asked about hostility from Eurosceptics if a strict timetable for the lifting of the ban was not stipulated, Mr Rifkind said: "They would not be entitled to deride an agreement because they applauded the objective when the prime minister declared it to the House of Commons. We have every reason to expect recognition of what has been achieved."

Mr Rifkind denied that ministers had whipped up xenophobia. "It was newspapers that adopted all this stupid rhetoric about war and 'Falklands factors' and all this rubbish. I don't doubt there were some parliamentarians who also got carried away."

Mr Jacques Santer, European Commission president, is expected to announce details of the draft package to the European Parliament in Strasbourg today.

The document was understood to make clear that lifting of the ban on exports to non-EU countries – one of five steps identified last week – could take place only at the same time exports were permitted to EU countries.

The proposal contained the other elements in the British framework document – the phased lifting of the export ban on embryos, cattle born after a certain date, cattle from herds certified free of BSE, or "mad cow" disease, and eventually meat from cattle aged under 30.

But it added several conditions said to include stricter guarantees on identification plans for cattle, disposal of contaminated feed, and removal of contaminated offal from abattoirs.

Success may depend on the UK acceding to demands from several member states, led by France, to increase the number of cattle involved in a selective cull from 80,000 to at least 100,000.

Rifkind stands firm and Labour pro-Labour platform, Page 7

Netanyahu continues to face right-wing revolt

By Julian Ozanne in London and Ilene Prusher in Jerusalem

Israeli prime minister-elect Benjamin Netanyahu yesterday announced most of the names in his cabinet but faced a continuing revolt inside his right-wing Likud party over the future of Mr Ariel Sharon, the hawkish former general.

In his inaugural address to parliament, Mr Netanyahu sought to calm concerns, of Arab leaders, meeting in Cairo on Saturday, by pledging to pursue peace negotiations with Syria, Lebanon and other Arab states.

But Mr Netanyahu's efforts to present a government to parliament were marred by two victories for the Likud "princes" – senior right-wing politicians angered at his efforts to marginalise them.

He was yesterday forced to name as finance minister a potential rival, Mr Dan Meridor, who is a moderate and well-respected Likud member, rather than Mr Jacob Frenkel, central bank governor and Mr Netanyahu's first choice for the Treasury job.

The prime minister-elect was also thwarted by the last-minute withdrawal of Mr David Levy, who had been expected to be foreign minister. Mr Moshe Katsav, incoming tourism minister, said Mr Levy would boycott the new cabinet until Mr Netanyahu met Mr Sharon's demands for a senior cabinet post.

Mr Levy's action forced Mr Netanyahu to select a government which left the critical portfolios of foreign affairs, housing and construction and religious affairs temporarily filled by himself. Mr Yitzhak Mordechai, a general turned politician, was named as defence minister.

Although Israel's markets had welcomed the prospect of Mr Frenkel becoming finance minister, the choice of Mr Meridor was also well received and shares on the Tel Aviv Stock Exchange posted gains for a second day.

Mr Meridor, a lawyer who served as justice minister during the last Likud government of 1988-92, has voiced support for cuts in the government's rising budget deficit – a policy central to restoring Israel's macro-economic stability.

Mr Netanyahu, in his appeal to Arab leaders, said he wanted direct negotiations with Syria, Lebanon and Saudi Arabia "to widen the circle of peace".

But the government's hardline policy guidelines towards Middle East peace, published on Monday, drew criticism from Arab leaders. "Expanding settlements, annexing Jerusalem, not withdrawing from the Golan Heights are requirements for peace destruction and not peacemaking," said Mrs Hanan Ashrawi, Palestinian education minister.

Netanyahu's ambitions, Page 5

THE LEX COLUMN

In bed with Lebed

Say what you like about Mr Boris Yeltsin, his political footwork remains impressively deft. To have won so quickly the support of former general Alexander Lebed is a remarkable coup, sharply improving the president's chances of hanging on to power. No wonder the markets are jubilant.

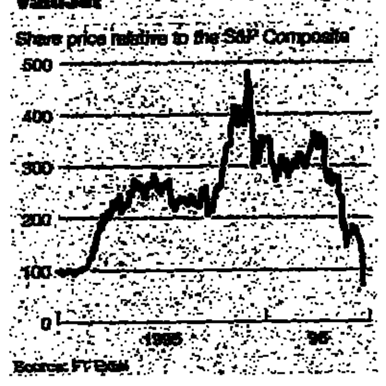
Of course, winning over Mr Lebed is not the same as gaining all his supporters. And perversely, the more the Communist threat recedes, the more difficult it will be for Mr Yeltsin to persuade apathetic voters into the polling booth. But he should still win enough of the supporters of the first round's third, fourth and fifth runners to make the Communists' chances look rather slim.

Of course, Mr Yeltsin's deficiencies are well-known, and adding an authoritarian admirer of General Augusto Pinochet could produce a pretty unpredictable cocktail for investors. But for all Mr Lebed's hardline support, he is at least not given to Zhirinovsky-style expansionist fantasies. And on economics – not his strong point – Mr Lebed has, if anything, tended to flirt with liberalism. Moreover, if he does succeed in stamping out some of Russia's endemic corruption – the main plank of his campaign – foreign investors should benefit.

But they should not get carried away. Even after a Yeltsin-Lebed victory, Russian investments would still offer plenty of political risks. Mr Lebed could easily fall out with Mr Yeltsin, the Kremlin establishment, or both. Mr Yeltsin's health is shaky. And the communists, strong in the Duma, will still be able to bog legislation down. Many Russian investments may remain ostentatiously attractive on fundamentals, but they will still be very much for the brave.

FT-SE Eurotrack 200: 1725.4 (-8.4)

ValuJet
Share price relative to the S&P Composite



Source: FT Extel

ValuJet

Last month's ValuJet crash has rapidly turned into more than just another airline disaster. Rightly or wrongly, the crash has been linked in the public mind to lax regulation by the Federal Aviation Authority and deficiencies in ValuJet's low-cost operations. A regulatory backlash against cut-price airlines is now likely, especially since President Bill Clinton, who had previously championed the benefits of cut-price air travel, is under pressure to distance himself from the crash's political fall-out.

ValuJet itself, whose operations were suspended on Monday, will be hard-pressed to get back in the air. Not only will the FAA, which has been forced to retire its top safety official, be reluctant to certify anything less than perfection at ValuJet; the airline also faces investigation by other bodies.

The broader impact will be less from consumers avoiding cut-price airlines than from the tightening of aircraft regulations announced yesterday. The net effect of the FAA's slew of directives will probably be to add to the cost of maintaining older aircraft. This will disproportionately hit low-cost start-ups, whose fleets are typically much older than large established airlines. It will also be harder for start-ups to raise finance.

All this, of course, will be good news for established airlines such as American Airlines and Delta which have faced tough competition from start-ups in recent years. It may even be good for aircraft manufacturers such as Boeing and Airbus, since airlines may scrap older aircraft earlier.

Japan

The good news about Japan's economic growth in the first quarter – an astonishing 12.7 per cent on an annualised basis – is that it is not sustainable. If the Bank of Japan were even half-convinced the economy could continue growing at this pace, it would have no choice but to raise interest rates, sending stocks and bonds lower.

Fortunately, that still looks unlikely at the moment. These record figures are based on a phenomenal 27 per cent growth in public sector investment, largely funded by last autumn's huge Y14,220bn ($130.45bn) fiscal stimulus package. The effect of this is widely expected to run out by the autumn. And even if the government succeeds in passing new spending measures, they will be on a more modest scale. Meanwhile, much of the sharp rise in corporate investment seems destined to be spent on factories outside Japan, while consumer demand is growing at a modest 2.7 per cent. Despite a cracking start, therefore, most economists are leaving their annual growth forecasts for 1996 unchanged at around 3 per cent.

There are other reasons for maintaining the current loose monetary policy. Inflation is still fluctuating around zero, while unemployment is at an historic high. The recent Tankan survey of business confidence, which pointed to a renewed build-up of excess stocks, also suggests there is still plenty of spare capacity in the economy. On top of that, the Bank of Japan has been keen to keep interest rates low to help resuscitate the country's debt-laden financial system. For the moment, it should be able to hold the line.

Aim

One year after launch, the Alternative Investment Market – Aim – has exceeded its targets. Confounding predictions of an early demise, the London Stock Exchange's junior market has grown from 10 companies to 164 and is now capitalised at nearly £2.6bn. Currently, one new company is joining every week. Against a favourable background for stocks generally, the Aim index has beaten the FT-SE All Share by a modest 6 per cent. But individual companies like Financial Publications, which owns a stockbroker, and Viewlim, a provider of internet services to hotels, have seen their shares rise five- or six-fold.

To develop further, Aim needs greater institutional involvement. The market boasts two dedicated investment trusts and half a dozen venture capital funds, but big fund managers are notable by their absence. With 35 per cent of Aim shares in the hands of management and venture capitalists, liquidity remains poor. And while Aim has given start-ups in multimedia, electronics and biotechnology access to new capital relatively early and cheaply, the largest sum raised by any company is a mere £20m.

The real test will be how Aim reacts to a setback. So far, there have been disappointments – shares in Memory Corporation, once the largest constituent, have fallen by 80 per cent this year – but no failures. At some stage, a corporate collapse is inevitable, given the number of blue-sky companies among its constituents. But a bear market could dry up what little liquidity there is.

Additional Lex comment on Cowie, Page 18

Japan sees growth boost

Continued from Page 1

27.2 per cent in the first quarter from the same period last year, after 12.6 per cent growth in the previous quarter.

Much of this is thought to be paid for by last September's record Y14,220bn ($130bn) fiscal stimulation package, widely expected to run out later in the year. Public construction starts fell in April, according to separate figures.

However, corporate investment is rising fast – by 7.4 per cent in the first quarter, from the same period in 1995, after growing by 6.4 per cent in the final three months of last year.

Mr Richard Werner, chief economist at Jardine Fleming Securities in Tokyo, one of the more optimistic analysts, argued that the first-quarter growth was evidence that the BoJ's loose monetary policy had brought the intended results.

Tokyo economists agreed that the BoJ was unlikely to increase its official discount rate – held at 0.5 per cent since last September – on the strength of yesterday's data. Inflation, one of the central bank's chief worries, is still a remote prospect.

The GDP deflator, a broad measure of prices, fell by 0.1 per cent from the same quarter of last year, the seventh consecutive quarter of decline.

Seoul to relax curbs on foreign holdings in drive for OECD

By John Burton in Seoul

South Korea yesterday proposed easing its strict limits on foreign ownership of listed shares as part of its campaign to gain admission to the Organisation for Economic Co-operation and Development.

It would also strengthen competition in the financial sector by allowing foreign securities houses and banks to establish wholly-owned subsidiaries in Korea from December 1998.

The new proposals came as Seoul was preparing to negotiate with OECD officials in early July on capital transactions and foreign investment. It hopes to be allowed to join the club of advanced industrial nations this year as scheduled.

The finance and economy ministry in Seoul said it would increase the foreign shareholding limit from the present 18 per cent to 20 per cent this year, and then raise the ceiling by 3 percentage points annually to 29 per cent by 1999.

The ministry also suggested it would abolish the foreign ceiling in 2000 if "economic circumstances" were appropriate.

Although the finance ministry had previously said the ceiling would be increased, yesterday's move was the first time the ministry has offered a detailed implementation schedule.

The Seoul bourse was opened to direct foreign investment in January 1992 with an initial ceiling of 10 per cent. The ceiling has been raised gradually since then. The government has argued that a foreign ownership ceiling is necessary to prevent large capital inflows from destabilising the stock market and increasing inflationary pressure.

Seoul's decision to allow foreign banks and securities houses to establish subsidiaries in Korea, instead of only branches or representative offices, follows recent proposals to permit overseas investment consulting companies and investment trust companies to open subsidiaries starting in 1998.

It is uncertain whether the new concessions will satisfy the OECD. No mention was made yesterday of another OECD demand, that the country open fully its bond market.

Opening investment door, Page 4

Whitewater report attacks Hillary Clinton

Continued from Page 1

experience," in which "total recall and a photographic memory" were deemed necessary. Americans could "take comfort," it went on, that neither the president nor his wife had committed any breach of the public trust.

The most specific Republican criticism of Mrs Clinton were that in the mid-1980s she had destroyed her Arkansas law firm's records of the Whitewater real estate venture, that she had orchestrated White House obstruction of the federal investigation into the suicide in 1993 of Mr Vincent Foster, then White House deputy legal counsel, and that she had deliberately concealed her role in the firing of the White House travel office staff, also in 1993.

The only substantive charge against Mr Clinton in the Republican report was that he allowed the White House legal office to be used for his Whitewater and other legal problems.

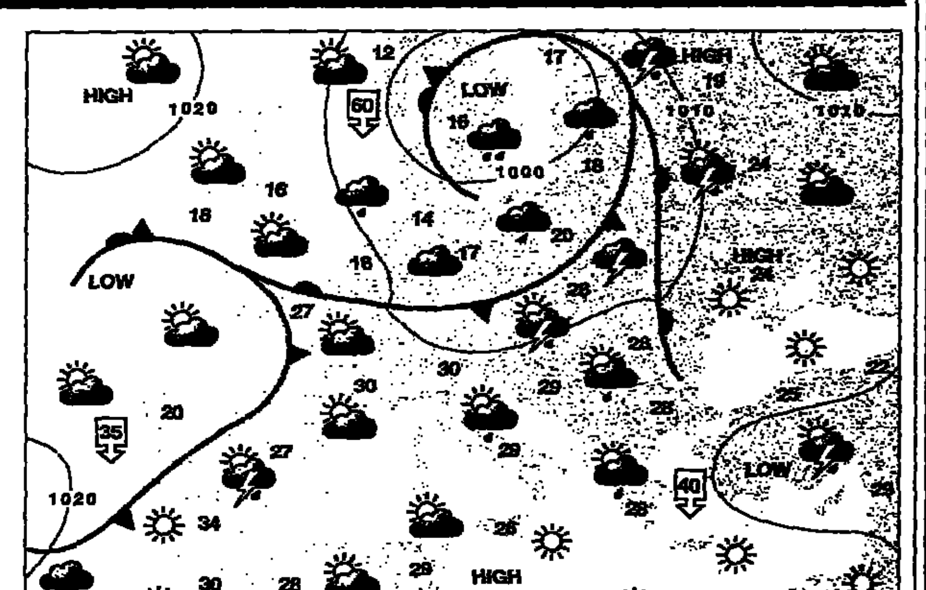
FT WEATHER GUIDE

Europe today

Scandinavia will be mostly cloudy with rainy periods. There will be near gale force northerly winds along Norway's coast. The British Isles will have sunny periods in the west but cloud with occasional rain in the east. Northern parts of the Benelux, Germany and Poland will be cloudy with patches of light rain. Elsewhere in these countries it will be sunny. Finland and north-west Russia will have rain with thunder storms likely. Most of southern Europe will be sunny and warm. However, north-east Spain, the eastern Alps, Italy, the western Balkans and interior Turkey will have some light rain.

Five-day forecast

Scandinavia will remain mostly cloudy with showers as a low pressure system lingers. Another low pressure system accompanied by heavy thunder showers will reach the continent from the Bay of Biscay on Thursday, followed by the Adriatic on Sunday. A weak frontal zone will be surrounded by thunder showers over France, central Europe and north-west Russia. The south-east will stay sunny and warm.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	39
Accra	fair	30
Algiers	fair	28
Amsterdam	cloudy	15
Athens	sun	28
Atlanta	thund	32
B. Aires	fair	17
B.ham	cloudy	19
Bangkok	rain	33
Barcelona	fair	27
Beijing	cloudy	27
Belfast	fair	18
Belgrade	sun	29
Berlin	rain	17
Bermuda	fair	27
Bogota	shower	19
Bombay	rain	34
Brussels	fair	17
Budapest	fair	26
C.hagen	shower	16
Cairo	sun	33
Cape Town	fair	19
Caracas	sun	31
Cardiff	fair	21
Casablanca	fair	24
Chicago	fair	23
Cologne	cloudy	18
Dakar	fair	31
Dallas	sun	36
Delhi	fair	36
Dubai	sun	40
Dublin	fair	18
Dubrovnik	fair	25
Edinburgh	fair	15
Faro	sun	26
Frankfurt	fair	22
Geneva	sun	29
Gibraltar	sun	28
Glasgow	fair	17
Hamburg	rain	14
Helsinki	rain	17
Hong Kong	fair	30
Honolulu	fair	31
Istanbul	sun	25
Jakarta	fair	32
Jersey	sun	22
Karachi	cloudy	34
Kuwait	sun	47
L. Angeles	fair	24
Las Palmas	fair	26
Lima	cloudy	19
Lisbon	sun	28
London	cloudy	20
Lux.bourg	cloudy	20
Lyon	sun	31
Madeira	cloudy	23
Madrid	fair	30
Majorca	sun	31
Malta	sun	29
Manchester	cloudy	16
Manila	cloudy	34
Melbourne	cloudy	15
Mexico City	shower	27
Miami	thund	32
Milan	sun	32
Montreal	fair	23
Moscow	fair	19
Munich	sun	26
Nairobi	fair	24
Naples	fair	28
Nassau	shower	32
New York	shower	23
Nice	sun	28
Nicosia	sun	33
Oslo	rain	15
Paris	fair	27
Perth	shower	19
Prague	fair	24
Rangoon	cloudy	27
Reykjavik	sun	15
Rio	sun	31
Rome	sun	29
S. Frsco	sun	22
Seoul	rain	24
Singapore	shower	31
Stockholm	rain	16
Strasbourg	fair	27
Sydney	fair	19
Tangier	fair	28
Tel Aviv	sun	29
Tokyo	fair	27
Toronto	cloudy	22
Vancouver	fair	19
Venice	fair	26
Vienna	fair	28
Warsaw	fair	20
Washington	thund	31
Wellington	sun	12
Winnipeg	shower	23
Zurich	fair	28

FINANCIAL TIMES
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Wednesday June 19 1996

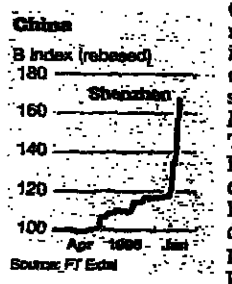
IN BRIEF

IPC threatens to drop Tempest bid

The $1bn battle for control of Tempest Re, the Bermuda-based reinsurance company, is poised to come to a head today with a threat by IPC, a rival reinsurer, to withdraw by tonight if its offer was not accepted. Page 16

Bathroom products groups to link up
Sphinx Gustavsberg and Keramik Laufen, respectively the leading Dutch and Swiss makers of sanitary ware, are to merge their operations to create Europe's largest bathroom products group, with annual sales of about Fl 1.4bn ($823m). Page 14

Shenzhen B index surges a further 10%



China's Shenzhen B index returned from Monday's holiday with a rise of 10.3 per cent, taking the advance since the start of trading last Thursday to 38 per cent. The surge in hard currency B-shares, officially available only to foreign investors, followed plans by the Guangdong government to extend preferential treatment to the province's top 70 companies, including several Shenzhen-listed B-share issuers. The index surged 9.40 to 101.47. Page 30; Moscow shares rise sharply, Page 30

Astra hopes rise for asthma drug approval
Astra, the Swedish pharmaceuticals group, said it was close to gaining approval from US regulators to launch its second-biggest selling drug, the anti-asthma agent Pulmicort, on the US market using its Turbuhaler inhalation device. Page 15

Chip slide dents Samsung optimism
A few months ago, Samsung Electronics was a study in corporate cockiness. Its 1995 net profits jumped from Won945bn to Won2,506bn ($3.1bn). But its optimism for 1996 earnings has fallen flat, along with world memory chip prices. Page 17

Tenneco tops Mayflower's Pullman bid
Shares in Mayflower, the UK engineering company, fell 11 per cent after its £226m takeover bid for Pullman, the US automotive components group, was trumped by a $300m offer from Tenneco, the Houston-based industrial conglomerate. Page 18

Emerging markets drive oil demand
Emerging economies last year accounted for almost all the growth in world oil demand, economists at British Petroleum reported. Consumption in Asia's emerging economies rose 7.3 per cent, with Malaysia the fastest growing at 15.5 per cent. Page 19

Engen shares jump 16% as trade resumes
Shares in Engen, the South African oil company, jumped 16 per cent as trading resumed after the sale of a 30 per cent stake to Malaysia's state-owned Petronas. Page 30

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Gildemeister	620	+	30
Lahmeyer	527	+	16.5
Varta	319	+	4.5
Falls			
Hochtief	675	–	9
Holzmann	447	–	25
Linotype	90	–	7.5
NEW YORK ($)			
Rises			
Delta Air	83½	+	3¼
Diamond Off	49⅝	+	1¾
Tidewater	39¼	+	1⅜
Falls			
Network Equip	21⅛	–	3⅜
Safeguard Sc	76⅞	–	6⅞
Whitehall	32⅝	–	3¼
LONDON (Pence)			
Rises			
First Leisure	369	+	11
Northamber	340	+	21
Tinsley (S)	105	+	11
Falls			
Betterchk	408	–	32
Banner Homes	73	–	5
Carpetright	594	–	29
TORONTO (C$)			
Rises			
Pa-X Minerals	24.55	+	1.40
Gt Pacific	45.00	+	4.50
Paramount Res	15.00	+	1.00
Falls			
Biochem Pharm	50.05	–	8.35
KWG Res	10.20	–	0.80
Premax Forest	7.00	–	0.60
PARIS (FFr)			
Rises			
Canal Plus	1216	+	22
Cred Lyon	112	+	8.50
Falls			
Bancaire Comp	553	–	8
Club Med	458.2	–	9.7
Fonc Lyonnaise	370	–	15
Legrand	912	–	12
TOKYO (Yen)			
Rises			
Banyu Pharm	1470	+	50
Calpis Food	929	+	19
Nippon Fire	718	+	18
Falls			
Fudo Const	890	–	11
Hokuetsu Paper	760	–	10
Showa Shell	1110	–	50
HONG KONG (HK$)			
Rises			
Cathay Pac Air	14.35	+	0.50
Citic Pacific	31.50	+	1.10
Midland Realty	4.875	+	0.225
Falls			
Island Dyeing	5.60	–	0.40
Sun Hung Kai	2.85	–	0.25
Wah Kwong	12.20	–	0.60
BANGKOK (Baht)			
Rises			
Siam Pulp	53.00	+	4.00
Thai Insurance	88.00	+	6.00
Thai Wacoal	121.00	+	11.00
Thanatex	52.00	+	4.50
Falls			
Hua Thai Man	57.50	–	8.00
PCM precast	80.00	–	8.50

New York & Toronto prices at 12.30

Moulinex plans cuts after record loss

By David Owen in Paris

Moulinex, the French household appliances group, yesterday announced plans to cut its workforce by more than 20 per cent and to close two French factories while reporting the biggest loss in its 60-year history.

The 2,600 job losses, mainly in France, are the result of a three-year restructuring plan designed to cut the group's industrial costs by 25 per cent and ensure its continued independence.

Mr Pierre Blayau, chairman, said he was convinced that if in the next two years the group did not make clear that it fully appreciated the need to implement reforms, it would fall into the hands of a foreign competitor. Mr Blayau – former head of Pinault Printemps Redoute, the French retail group, and a graduate of the elite Ecole Nationale d'Administration – was brought in this year following a sudden decision by leading shareholders to replace the top management.

The restructuring plan has resulted in a FFr600m ($117m) provision, included in the group's results for the year to March 31 1996, which took net losses to a record FFr702m, against a loss of FFr213m in the corresponding 1995 period.

Operating profit halved to FFr64m, from FFr117m, on turnover marginally up on the FFr7.68bn achieved in 1995 at FFr7.79bn. The group said the increase in turnover would have been 5 per cent at constant exchange rates.

It said the restructuring plan was intended to restore its business performance, "bringing it to a level equal with that of its main competitors". All its rivals "without exception" were performing better.

Mr Blayau said Moulinex must have "the ambition to be a global company". France and Europe would focus on products with the highest added value, with the manufacture of products earmarked for developing markets transferred overseas. Moulinex would, however, maintain a significant industrial presence in western France.

Analysts have suggested Moulinex's troubles began in the late 1980s following the decision of Mr Jean Mantelet, its founder and inventor of many of its products, to sell the group to its employees.

A number of management changes followed in the early 1990s and the group was forced to announce a restructuring, with new shareholders brought in, in 1994 after it came close to folding.

Yesterday's announcement prompted Mr Francois Fillon, minister of post and telecommunications and chairman of the La Sarthe general council, where one of the plants to be closed is located, to call for the ministry of work to turn down the closure proposals.

Kvaerner to sue executives of VAI

By Tim Burt

Kvaerner, the Norwegian engineering group, is to sue senior executives of VAI, the Austrian civil engineering group, over the alleged theft of thousands of documents from one of Kvaerner's subsidiaries.

The Scandinavian group claims that Mr Horst Weisinger and Mr Richard Guserl, chief executive and finance director respectively of VAI, were aware that its UK subsidiary had illegally obtained confidential technical and contractual information from Davy International, Kvaerner's metals processing arm.

Kvaerner, which inherited Davy following its £904m takeover of Trafalgar House, is expected to serve High Court writs against the Austrian executives today. The move follows raids on VAI's UK offices, in which Kvaerner seized more than 2,000 documents and computer discs allegedly belonging to Davy.

The company has already issued writs against other VAI employees, including Mr Roy Tazzyman, managing director of the Austrian group's UK subsidiary. Mr Tazzyman was previously chief executive of Davy, which he left in September.

The Austrian group has vowed to fight the lawsuits, claiming there was no evidence to suggest it has misused or misappropriated information from Davy.

However, documents seen by the Financial Times appear to suggest Mr Tazzyman was passing information about Davy to VAI before he joined that company. The documents include a copy of a fax from Mr Tazzyman to the VAI chief executive regarding Davy's position on a large overseas contract for which both companies were bidding.

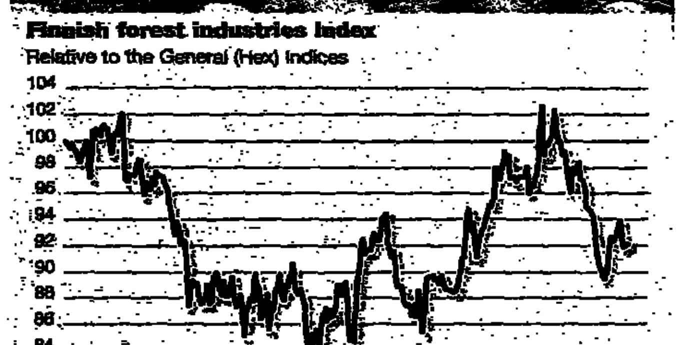
The fax – cited during Kvaerner's application for court permission to raid VAI's offices – says: "Horst, whether you like it or not, I suspect this order will be placed at $1bn including spares and training. Why don't you link a reduced price to better terms of payment. Davy might do this. I suggest you include spares and training at cost. It is difficult to advise on price not knowing [the] specification but if you are higher than $70m for both you may have a problem."

Another document sent by Mr Tazzyman to VAI's finance director concludes: "Please destroy after use."

Cautious optimism from pulp groups despite lower profits

Finnish paper hit by lower prices

By Hugh Carnegy in Stockholm



Results (first four months)

	Sales (FM bn) 1995	Sales (FM bn) 1996	Pre-tax profit (FM bn) 1995	Pre-tax profit (FM bn) 1996	Earnings per share (FM) 1995	Earnings per share (FM) 1996
UPM-Kymmene	17.4	17.6	1.9	1.65	6.93	4.95
Enso	9.3	8.8	1.2	0.80	3.75	2.46
Metsä-Serla	4.1	4.8	0.6	0.32	3.11	1.78

Source: Company reports

Finland's big pulp and paper groups yesterday reported a sharp decline in profits in the first four months of the year and were cautiously optimistic about a recovery towards the end of the year from the big fall in prices the industry has suffered since late 1995.

Combined profits from UPM-Kymmene – Europe's biggest forestry sector producer – Enso and Metsä-Serla fell during the period from FM3.7bn to FM2.8bn ($598m) as they were hit by big falls in prices of wood pulp, fine papers and sawn timber.

Advances in newsprint, where demand and prices have remained strong, and structural changes helped push up combined sales from FM30.8bn to FM31.3bn. A weaker Finnish markka also helped the Finnish producers perform ahead of most expectations – and better than their Swedish rivals.

The three groups agreed that the halving of the price of benchmark long-fibre pulp from a high of $1,000 per tonne late last year appeared to have bottomed out, offering some prospect of recovery late this year as key pulp-dependent grades, such as fine paper, followed suit.

Mr Jukka Härmälä, chief executive of Enso, said results in the final four months should recover. But he warned that production shutdowns planned by Enso and other groups in the summer – to help reduce stocks – meant profits in the current four-month period would be worse than in the first four months.

Mr Juha Niemelä, chief executive of UPM-Kymmene, expected profitability for the rest of the year to be below the first-term performance. "I do not believe that we will see an improvement in the last tertial sufficient to compensate for what has happened earlier," he said.

He pointed out that weak demand had led to a further cut in output since the end of April despite predictions of improvements later in the year.

All the Finnish groups reported weaker capacity utilisation, especially in fine papers and pulp. Enso pulp output was at 75 per cent of capacity, while fine paper capacity utilisation at Enso and UPM-Kymmene was just above 80 per cent. Even in magazine papers, UPM-Kymmene capacity utilisation was 78 per cent.

Yesterday, Sweden's Assi-Domän announced a SKr1.2bn ($180m) investment programme mainly in packaging materials. Metsä-Serla said it was applying for environmental permits for a new packaging board machine in Germany.

Details, Page 14

Cemex issue to finance $1bn bond buy-back

By Daniel Dombey in Mexico City

Cemex, the world's third largest cement company, is to offer to buy back a $1bn "jumbo bond" in an attempt to calm worries about its debt burden of about $3.9bn.

The offer will be financed by a $340m equity placement and the issue of new bonds. It will be Cemex's third equity issue in seven months.

Debt concerns have depressed the company's share price, which this year has increased 5 per cent in dollar terms, while the Mexican bolsa, or stock exchange, has appreciated 16 per cent.

The stock's sluggishness is particularly worrying for the company because it is a multinational with only 40 per cent of sales from Mexico and should be less vulnerable than other companies to the unevenness of the country's recovery. Other more domestically orientated companies in Mexico's cement sector have fared better. Shares in Apasco, a subsidiary of Holderbank, the Swiss-based cement company, have improved 30 per cent this year.

In May, Moody's Investors Service said it was reviewing the long-term debt ratings of Cemex and its subsidiary Tolmex for a possible downgrading, partly because of concerns about the company's debt burden.

"In both debt and equity markets, the timing of Cemex's current maturities has been a big concern," said Mr Alexander Hayek, head of Indosuez's operations in Mexico City. "The new offer should improve that."

The offer is for up to the full $1bn of the jumbo bond, which has a coupon of 8⅞ per cent and matures on June 10 1998. The offer expires on July 15, but could be extended. The price will be set at the close of trading on July 11, and the offer will depend on the company's attracting sufficient resources to purchase the outstanding debt.

Cemex will issue two separate tranches of new debt to spread out maturities and reduce its vulnerability to interest rates changes.

Previously, the company issued shares as part of a share-exchange programme with Tolmex, as well as to finance the acquisition last month of Cementos Diamante and Cementos Samper, two of Colombia's biggest cement groups.

Analysts were pleased that the issue of new equity would reduce the company's gearing and streamline maturities, though the dilution of existing shares caused some concern.

"The sale of new equity under the terms anticipated will probably be dilutive," said Ms Carman Slade, an analyst with Salomon Brothers. "The refinancing of approximately $2bn in debt between 1996 and 1997 remains unaddressed."

Cemex is one of several Mexican companies that recently announced the possible issue of new equity. Last week, Grupo Casa Autrey, a pharmaceutical wholesaler, announced the issue of 10m common shares, and Banamex, the country's largest bank, said it would issue $350m in convertible debt. In 1995, few Mexican companies were able to place equity, but the country's more stable financial climate has changed the situation.

"The market is beginning to turn and even though Cemex is a multinational, it benefits from the change," said Mr Gordon Lee, a Mexico City-based analyst.

Barry Riley

Wall Street's bears can only wait and sweat

Is the agony of the professional bears of Wall Street almost over? The trouble is, the sages at Morgan Stanley may propose, but it is the millions with the 401(k) plans who dispose.

The flood of amateur punters' money into equity mutual funds has sidelined most of the value parameters which the investment professionals so assiduously chart. Most recently the bond-equity yield ratio, for instance, has surged to 3.7, higher even than in 1987, and vastly above the "normal" level of around 2.5.

The *Bank Credit Analyst* has become more seriously bearish. The Montreal-based newsletter's Equity Speculation Index has zoomed well past the "extremely speculative" danger mark and in fact has not been this high since 1972. It has to be said, however, that this index rose almost as high in 1993, but Wall Street's subsequent correction was only gentle.

Indeed, the fact that there has not been a 10 per cent reversal since 1990 has reinforced the amateurs' view that US equities have become almost riskless. Any setback simply presents a better buying opportunity.

According to the mutual fund latest figures, for April, money continues to pour in, with net sales of $27.7bn – of which $23.7bn went into equity funds, including $6bn into the Aggressive Growth sector and $5.5bn into Growth. In contrast, there were net redemptions of government bond funds.

This year, $90bn net of redemptions has gone into equity funds, including $19.4bn into Aggressive Growth funds. The equivalent figures for January-April 1995 were $32.2bn and $7bn.

This acceleration has fuelled an explosion of speculative new issues, with more than 300 initial public offerings in January-May raising $20.7bn.

IPOs are well set to beat the 1993 record of $34bn.

Yet the bears will gain encouragement from the fact that the Dow Jones Average has lost momentum: although it hit a high on May 22, and is 10 per cent up this year, it is scarcely above its mid-February level. The recent action has focused on Nasdaq, where the index is up 15 per cent since the year-end and hit a peak only two weeks ago.

IPOs are well set to beat the 1993 record of $34bn

This switch to lower quality is one indication of a nearing top, but even so there remains a possibility that there will be one last surge in the great Wall Street bull market. Even in sceptical London this view finds some support. Robin Griffiths, chartist at HSBC James Capel, is pitching for 7,200 on the Dow and Michael Hughes, global strategist at Barclays de Zoete Wedd, declares that he will sit tight with an above-average weighting until 6,000.

The average UK pension fund measured by Caps, however, had edged its US equity exposure further down to just 2.5 per cent by the end of March, about a quarter of the full capitalisation weighting.

What could trigger a decisive break in the market? There is much talk about a rise in short-term US interest rates from 5.25 per cent during the summer. Such a rise set off the bond market's crash in February 1994 – but there is little evidence that the equity market is currently leveraged in quite the same dangerous way.

Long-term bond yields have already risen more than a percentage point this year without upsetting equities. But if 7 per cent is not enough, perhaps 8 per cent will do the trick.

Elsewhere, Robert Hoye, who publishes his *Quantum* newsletter in Vancouver, points to the copper market's crash as a possible portent. Base metal price reversals have coincided with the ending of great bull markets in stocks in the past.

It could be good news, incidentally, for gold, which has been rigged on the downside in a mirror image of copper's alleged upside ramping.

Global fund flows may hold the key. Attempts to hold down the yen over the past year have served to pump well over $100bn of foreign money into US Treasuries. But soon the central banks may struggle to hold the dollar down. US savings would have to go back into bonds, at whatever price, and the flows into all those nebulous internet and biotech offerings would be stifled.

Whatever actually happens, it will doubtless catch us all by surprise.

Strength in newsprint fails to offset decline in pulp and timber

Profits down at Finnish forestry groups

By Hugh Carnegy in Stockholm

Falling prices in pulp, sawn timber and fine papers were blamed by Finland's forestry products groups yesterday for big falls in profits in the first four months of the year.

There was stronger performance in newsprint, where prices and demand remained high, and in packaging materials. But in some packaging and magazine papers, a weak trend was also at work, undermining sales volumes and profits.

At UPM-Kymmene, Europe's biggest forestry industry group formed late last year by the merger of Repola and Kymmene, pre-tax profits slid from FM1.9bn to FM1.65bn ($352.2m) – but the fall was softened by an extraordinary charge of FM146m at the same stage last year.

Group turnover rose from FM17.4bn to FM17.6bn, driven by a rise in newsprint sales from FM1.7bn to FM2.1bn and a slight increase in magazine paper sales to FM3.66bn. Sales at Rauma, the forest machinery and engineering subsidiary, also rose, from FM2.8bn to FM3.4bn.

But sales in all other key divisions fell, dragging down profits. Operating profits in fine papers slumped from FM362m at the same stage last year to FM37m, while pulp profits tumbled from FM703m to FM213m.

The sawn timber division incurred a loss of FM30m. These outweighed a brisk rise in profits for newsprint – up from FM177m to FM453m – and left group operating profit down from FM2.7bn to FM2.5bn.

Mr Juha Niemelä, UPM-Kymmene chief executive, said the merger process was well advanced, with all the group's production operations from the two merged companies reorganised into a single divisional structure. Overlapping head office functions were now being merged and down-sized.

However, he said that the FM1bn–FM2bn synergy benefits he anticipated had yet to be realised, and were hard to achieve when operating at relatively low capacity.

At Enso – itself the product of a recent merger of Enso-Gutzeit and Veitsiluoto – a similar pattern was evident, as group pre-tax profits fell from FM1.2bn to FM801m on sales down from FM9.3bn to FM8.8bn.

Sales in the base industries division, which covers forest, sawn timber and pulp operations, fell 14 per cent to FM1.9bn, while operating profits crashed from FM467m in the first four months last year to FM56m.

Price falls of up to 30 per cent caused fine paper sales to tumble 19 per cent to FM2.4bn and operating profits to fall from FM504m to FM66m.

Capacity utilisation in fine papers was 81 per cent and 80 per cent at UPM-Kymmene and Enso, respectively, during the period.

Enso emphasised that prices for fine papers would follow a turnround in pulp prices. If this happened, "business could be brisk in the second half of the year."

In the meantime, Enso fell back on its publication papers division to prop up performance. Publication paper sales rose 13 per cent to FM2.7bn, while operating profits rose from FM212m to FM625m. Packaging sales were unchanged at FM2.3bn, leaving operating profits down from FM460m to FM364m.

Metsä-Serla has not been involved in a merger like its two bigger rivals, but it is undergoing heavy restructuring under the auspices of its parent, the unlisted Metsäliitto group.

It attributed its rise in turnover, from FM4.1bn to FM4.8bn, to the restructuring, which includes a strategic alliance with Myllykoski of Finland and the acquisition of paper mills in Germany.

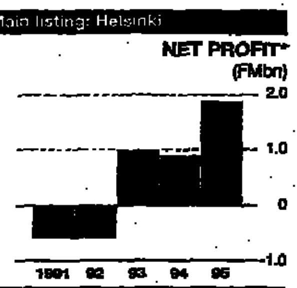
Metsä profits fell, however, from FM607m to FM318m due to its exposure to the fall in prices in pulp, fine papers and containerboard.

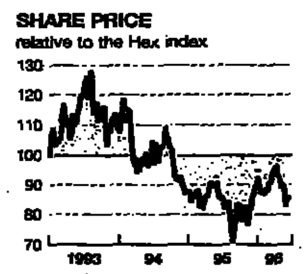
PROFILE:

UPM-KYMMENE

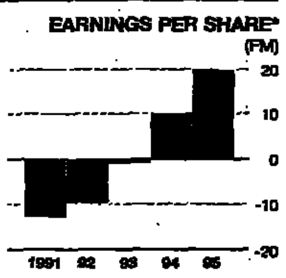
Market value: $5.2bn | Main listing: Helsinki

Historic P/E (1995)	4.1
Dividend yield	6.5%
Earnings per share (1995)	FM20.09
Current share price	FM90.4





Source: Company accounts, Datastream



*Pro forma figures

Bathroom product groups to join forces

By Gordon Cramb in Amsterdam

The leading Swiss and Dutch makers of sanitaryware are to merge their operations in a deal which will create Europe's largest bathroom products group, with annual sales of some Fl 1.4bn ($823m).

Sphinx Gustavsberg and Keramik Laufen will retain their respective Amsterdam and Zurich listings but are to put their output of showers, baths, toilets and associated products into a joint venture.

For Sphinx, this accounts for all its business except tiles, which represent only about 15 per cent of sales. The Maastricht-based company fell into a Fl 33.1m loss in 1995 following a Fl 42.2m extraordinary charge.

The charge stemmed from restructuring efforts, including the closure of a recently refurbished east German plant after it failed to penetrate the west German market. Net profits in 1994 were Fl 30.1m.

Sales at Sphinx dipped 2 per cent to Fl 832.4m while Keramik Laufen, whose interests in sectors such as bricks and roofing will remain separate, managed a 5.4 per cent rise to SFr792.4m ($634m). Laufen's net earnings rose 8.6 per cent to SFr51.8m.

The Swiss company will bring to the group a long-standing presence in the Americas and a new Thai operation as well as strong position in the German market, where Sphinx retains other factories. Mr Johan Boheman, chief financial officer, said rationalisation could lead to further closures. But geographical overlap elsewhere is low, with Sphinx most prominent in the Benelux region and Scandinavia.

The Dutch group said product ranges were also complementary and the merged operation "will be well positioned to respond to price pressures in Europe and in international markets" which hit it badly in the second half of last year.

The deal comes at the end of a period of hesitant expansion by Sphinx, which bought Gustavsberg from the Swedish co-operative movement three years ago.

NEWS DIGEST

Capital injection for Banque Paribas

Compagnie Financière de Paribas announced last night it would inject FFr4bn ($777m) into its wholly owned subsidiary, Banque Paribas, in order to boost the bank's capital in the wake of its FFr2.8bn loss last year, and to help it expand. The capital injection will raise the bank's consolidated own funds to FFr19.2bn. The recapitalisation was foreshadowed last month when the group raised FFr4bn on the bond market. Last year's losses were mainly the result of the group's decision to set aside FFr5.5bn in provisions – of which FFr2.2bn was for the bank. These provisions were chiefly to cover a write-down of its holding in Compagnie de Navigation Mixte, of which Paribas has since taken total control in order to restructure it, and to meet costs involved in the winding-down of Cogedim's property activities. Paribas is nonetheless forecasting a return to profit this year.
David Buchan, Paris

Franz Haniel expects flat year

Franz Haniel, the family-owned German group which controls Gehe, Europe's largest pharmaceutical wholesaler, yesterday said an excessively cold winter and economic stagnation in Germany had slowed business at five of its six divisions, but it still hoped to produce net profits in line with the DM275m ($181m) reported last year. The cold winter hit particularly hard at Haniel Bau-Industrie, the construction industry supplier. Together, the six divisions contributed DM268m to the group's pre-tax profits in the first half, in line with last year's results, but five of them failed to meet the target figures for this year. The exception was Gehe, whose bid for Lloyds the Chemist, the UK retailer, is being considered by the UK Monopolies and Mergers Commission. Haniel said only that the company had a good first half and declined to give any further figures. Mr Dieter Schadt, chief executive, said he hoped to increase Haniel's sales to DM25bn this year, from DM24.2bn in 1995. The group's management board is being reduced from six to four as more operational control is being handed to the management of the individual subsidiaries.
Michael Lindemann, Bonn

Telia acquires 75% of Telivo

Telia, the Swedish state-owned telecommunications operator, said yesterday it had acquired a 75 per cent holding in Telivo, the Finnish telecoms company. It said the purchase – from Imatran Voima (IVO), the state-owned Finnish energy group – would give it 10 per cent of the market for international calls and 4 per cent of long-distance calls in Finland. After the deal, for an undisclosed sum, IVO will retain a 25 per cent stake in Telivo, which it founded four years ago. Mr Lars Berg, Telia chief executive, said the Swedish company wanted to use Telivo as a springboard to become an all-round telecoms operator in Finland. In addition to transmitting calls, Telia would begin marketing data communications applications, telecoms equipment and systems in Finland. Mr Kalevi Numminen, IVO president, said IVO had sought a partner because Telivo would require significant investment, particularly for the construction of a new cellular telephone network.
Greg McIvor, Stockholm

Rauma doubles in first period

Rauma Corporation, an engineering subsidiary of UPM-Kymmene, Finland's largest forestry group, reported a rise in pre-tax profits from FM126m to FM271m ($58.2m) in the four months to April 30. It attributed the improved performance to higher deliveries of fibre technology products, centred on mechanical and chemical pulping. However, it warned that the market outlook was uncertain. Earnings per share rose from FM1.84 to FM3.65.
Greg McIvor

Shares in European IT companies beat Footsie

By Paul Taylor

Shares in European publicly quoted computer software and services have outperformed the FT-SE 100 by almost 50 per cent over the past two years, according to research published tomorrow by Broadview Associates, the information technology mergers and acquisition specialists.

The figures, prepared by Broadview as part of its new European IT Index, highlight the surge of investor interest in software and services stocks, particularly those linked with the Internet or enterprise-wide corporate communications and networking.

They also reflect the buoyant mergers and acquisitions market, which has seen US companies in particular eagerly snap up small European technology companies – driving multiples up towards the levels found in North America.

However, Broadview's overall index, which tracks 350 IT companies from 14 European countries, shows that IT companies have underperformed the FT-SE 100 by more than 7 per cent since April 1994, demonstrating the different market dynamics at work in the various sectors of the industry.

The index, which will be published monthly, includes companies in five main sectors: software products and services, hardware, telecommunications services, media and content services, and supporting products and services.

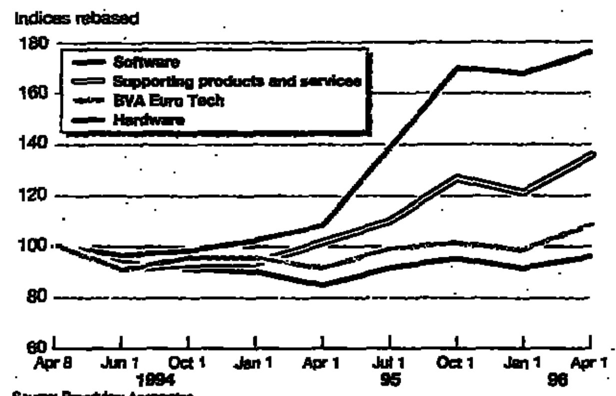
Among leading European software and services companies, SAP of Germany, the Netherlands' Baan group and the UK's Mysis group have all experienced robust growth worldwide in the past two years, which has been reflected in their share performance.

"European software and services companies have long understood the need to offer global solutions to succeed in the increasingly competitive applications market," said Mr Brian Mercer, a managing director in Broadview's European office in London. "Companies such as Mysis and SAP have shown that they can compete against the largest IT groups worldwide and win."

Meanwhile, after significantly underperforming the index, the media and content services sector has rebounded by 21 per cent in the first quarter this year with almost all the large European media groups, including Havas, Reuter and Reed Elsevier, seeing their share prices leap, driven by corporate refocusing and a marked improvement in their respective markets.

"With the corporate refocusing in 1995, the major European media groups are on the edge of the digital frontier," Mr Mercer said. "The markets are already looking to success in this area for 1996." Similarly, merger and acquisitions activity in the supporting products and services sector has helped drive up share prices.

European technology



Source: Broadview Associates

Lines to profit still open as Bouygues enters French mobile market

A trio of heavily backed operators awaits growth in an underdeveloped sector, reports David Owen

And then there were three. France Télécom and Générale des Eaux, the two established operators of French mobile telephone networks, have just been joined by a third entrant, Bouygues, better known for its construction activities and its interest in the TF1 television channel.

This trio of French corporate heavyweights is hoping to cash in on the explosive growth expected sooner or later to take root in this, the most underdeveloped of large European mobile telephone markets.

Subscribers to mobile telephone services still make up less than 3 per cent of the French population, versus end-of-1995 figures of 4.6 per cent in Germany, 6.8 per cent in Italy and 9.4 per cent in the UK – though growth is already accelerating: 182,000 new subscribers were added to the France Télécom and Générale des Eaux networks in the first quarter of 1996, more than twice as many as in the corresponding 1995 period. This brought the number of French subscribers to 1.48m.

But analysts believe there is potential for still faster growth. "Even this year, the French market has been relatively disappointing," says Mr James Golob, a telecoms analyst with Deutsche Morgan Grenfell in London. "We thought it would pick up more than it has."

This does not mean the market is without risks for Bouygues and its two powerful rivals. All have poured billions of francs into building their networks; none has yet generated a centime of profit. But if analysts' forecasts of more than 15m French subscribers by 2005 prove remotely realistic, these outlays should be well justified.

One reason why the French market has been slow to develop is that the mobile phone has tended to be viewed exclusively as a business tool, with services priced and packaged accordingly. Bouygues' arrival on May 30 looks set to change all that. "Our market is the general public," the company says.

This is reflected both in its early promotional campaign – which will cost FFr65m ($12.6m) between June and September and features the slogan "Using the telephone is becoming a sixth sense" – and in the price at which its service is being pitched.

For FFr240 a month, Bouygues customers are being offered three hours of free calls within a 100km radius – irrespective of when calls are made. "Including a certain number of free calls in a fixed-price contract is a good idea," says Ms Anne Lapasset of Idate, a communications research institute in Montpellier. "It is simple; everything is clear."

Bouygues owns 38.75 per cent of Bouygues Telecom, the company that will operate the new network. Its partners include Cable and Wireless of the UK with 20 per cent, Germany's Veba with 15 per cent and US West International with 5 per cent.

Unlike its two domestic rivals, Bouygues' network will operate at the 1,800MHz frequency range until recently reserved for the French defence ministry.

According to analysts, the technology should give Bouygues an edge in built-up areas but will require a high level of investment. Bouygues Telecom says investment is expected to total FFr15bn over 10 years.

A potentially serious handicap for the Bouygues network is that, initially, subscribers can only make calls from within the Paris region. Coverage is expected to expand quite rapidly to 50 per cent of the French population by 1997 and, perhaps, to 90 per cent by the end of the decade. But some analysts think this could be a significant competitive disadvantage. "What you saw in the UK was that as soon as Orange had good coverage, it took off," says Idate's Ms Lapasset.

Nevertheless, according to Deutsche Morgan Grenfell's Mr Golob, the comparatively slow development of the French mobile phone market means the third licence is "much more valuable than you would have expected".

France Télécom Mobiles, which accounts for about 65 per cent of French mobile phone subscribers, has joined battle with Bouygues for the wider, non-exclusively business market, launching a package called Déclic at the start of May. This offers a low monthly fee, of FFr100 a month, excluding tax, and a low tariff of FFr1 a minute for off-peak calls, including lunchtimes. Peak calls are billed at FFr4 a minute.

The company claims the package has been an instant success: "May was the best-ever month for France Télécom Mobiles." It says the timing of the launch of Déclic was attributable not to the expected arrival of Bouygues but to the fact that "our network now allows us to support more people".

Investment in the network amounted to FFr3.3bn in 1995 and will cost a further FFr3.6bn this year. The company says its network covered 75 per cent of the French population for 2-watt handsets by the end of 1995.

France Télécom Mobiles is a unit of France Télécom, and the mobile phone market is giving the state-owned group an early taste of the competitive climate it will face more widely from 1998, when the French telecoms market is expected to be fully liberalised.

Société Française du Radiotéléphone, the Générale des Eaux-controlled company which accounts for the remaining 35 per cent of French mobile subscribers, is for now continuing to concentrate on professional users. "The general public is not our primary market," it says.

Like its rivals, the company has been investing heavily in its network, with FFr3.5bn spent last year. It now claims coverage of 79 per cent of the French population for 2-watt handsets.

Other stakeholders in SFR include Vodafone of the UK, SBC Communications of the US and Alcatel Alsthom, the French telecommunications group.

One cautionary note for participants in the market is provided by analysts' forecasts that, as use of mobile phones becomes more widespread, revenues per subscriber will fall. Idate's Ms Lapasset thinks the market could become "much less of a paying proposition" as a result.

Deutsche Morgan Grenfell's Mr Golob, by contrast, thinks that any pressure on margins will be more than compensated by the economies of scale stemming from a much increased user base. "We are expecting French penetration to reach 25 per cent within 10 years," he says.

Less than 3 per cent of the French population subscribes to mobile telephone services

Subscriber evolution in France

	1992	1993	1994	1995	1996E	1997E	1998E	1999E	2000E
AC2000	325,700	351,300	281,900	233,600	180,000	144,000	100,800	50,400	0
SFR-NMT	110,263	131,315	143,944	142,600	127,280	101,824	71,277	35,638	0
Itinéris	1000	78700	694630	6940830	1115398	1740334	2481051	3177325	3786821
SFR GSM	775	10210	89262	303864	725832	1349768	2080485	2786750	3394855
Bouygues	0	0	0	0	60000	183250	535212	970715	1455163
Total	437738	571526	885096	1374884	2199510	3519217	5278825	7020837	8636630
Penetration	0.8	1	1.5	2.4	3.8	6	8.8	11.8	14.5

Source: Deutsche Morgan Grenfell

Astra set to gain US approval for anti-asthma drug

By Greg McIvor in Stockholm

Astra, the Swedish pharmaceuticals group, said yesterday it was close to gaining clearance from US regulatory authorities to launch its second-biggest selling drug, the anti-asthma agent Pulmicort, on the US market using its Turbuhaler inhalation device.

The company, which is striving to secure its future once patent protection on its blockbuster anti-ulcer drug Losec expires in 2001, said yesterday it had received an "approvable letter" from the US Food and Drug Administration, for Pulmicort and Turbuhaler.

Mr Staffan Ternby, Astra's head of corporate communications at group headquarters near Stockholm, said only a few "routine" questions remained to be settled. He expected the Pulmicort/Turbuhaler combination to be licensed in the US by the end of the year.

Preliminary approval was a milestone for Astra because "we have almost a virgin market in the US as the use of anti-inflammatory asthma agents there is very low," Mr Ternby said. Astra's shares fell SKr0.5 yesterday to SKr289.

The US market for so-called corticosteroid treatments was worth between $250m and $300m, Mr Ternby said. This would rise to $2bn were the same level of penetration to be achieved as in the UK, where corticosteroids now have 55 per cent of the asthma market.

"We think that is a realistic target," he said. "The question is how long it will take – whether it will be five years or eight." Treatment of asthma in the US has until now focused on bronchodilators, which open air passageways.

Pulmicort sales advanced 17 per cent last year to SKr4.3bn ($645.5m) and the company claims the therapy is the largest-selling anti-asthma agent in Europe. Underlying European sales grew 15 per cent in the first quarter of 1996.

Mr Peter Abelin, pharmaceuticals analyst at Enskilda Securities in Stockholm, suggested the US had the potential to account for about half the existing world market of SKr15bn to SKr19bn for anti-inflammatory corticosteroids.

Pulmicort, whose chief competitors in the US include Flixotide, manufactured by Glaxo Wellcome of the UK, would enjoy "considerable opportunities", Mr Abelin said. But he stressed Pulmicort alone would be unable to fill the void once Losec's patent expired.

Mr Ternby acknowledged Pulmicort would not fill the gap but insisted it had a "huge remaining potential". Astra started introducing the drug to the Italian market in May and submitted an application for registration in Japan – the third important unexploited market – late last year.

CONTRACTS & TENDERS

COMPANIES AND FINANCE: THE AMERICAS

IPC threatens to withdraw bid for Tempest

By Richard Waters in New York

The $1bn battle for control of Tempest Re, the Bermuda-based reinsurance company, is set to come to a head today with a threat by one of the bidders to withdraw by tonight if its offer is not accepted.

IPC, a reinsurer which launched an uninvited bid for Tempest two weeks ago, also said that it had secured more cash to back its cash-and-stock offer, but did not raise the value of its bid.

IPC's salvo yesterday came as Ace, a Bermuda-based insurer which until a fortnight ago seemed set to conclude a takeover of Tempest, called off a shareholder meeting scheduled for today to approve the financing of its own bid. Ace and Tempest had planned originally to hold meetings today to formalise their union.

Ace added, however, that the delay did not indicate any change of heart over proceeding with its own offer. Ace had increased its bid early last week, valuing its cash-and-stock offer at $924m.

The uninvited approach from the smaller IPC has raised the possibility of a round of mergers among Bermuda's recently-established group of catastrophe reinsurance companies, which rose to prominence earlier this decade to fill the void left by a shortage of reinsurance cover for large natural disasters.

Together, IPC and Tempest would have a capital base of more than $1bn, making them second only to PartnerRe in terms of size among the Bermuda catastrophe reinsurers.

For its part Ace, a more diversified insurance concern, had shareholders' funds of more than $1.6bn at the end of March.

In its latest overture yesterday, IPC said it had received a commitment from Chase Manhattan to advance $325m of the purchase price under a secured credit facility. It added that two investment groups linked to Mr George Soros, the hedge fund investor, had agreed to invest up to $40m to buy more IPC shares, depending on how many Tempest shareholders opted to take cash rather than stock in the offer. The agreement would keep the Soros groups' interest in IPC at 9.6 per cent after a takeover of Tempest was concluded.

IPC said it had set a deadline of 5pm New York time today for Tempest "to determine that the IPC proposal is superior to the Ace transaction". It said that it had been given access to Tempest's records over the past fortnight to allow it complete its due diligence and confirm its interest in proceeding with its bid. It added, however, that it had received no indication from Tempest about which of the two rival bids it would eventually recommend.

Flight of fancy: A ValuJet employee contemplates her future following the shutdown Picture AP

ValuJet's plans to get back into the air face rough ride

FAA grounding order has put airline's future in doubt

Can a US airline survive after one of its aircraft has crashed and the rest of its fleet has been grounded because of safety concerns? It seems unlikely; yet that is what ValuJet, previously one of the most successful low-cost airlines, hopes to do.

Late on Monday, the US Federal Aviation Administration announced that ValuJet had agreed to stop flying from midnight that night after an intensive scrutiny of its operations showed "several serious deficiencies" in its operations.

Immediately afterwards, ValuJet said it hoped to be flying again in 30 days. Mr Lewis Jordan, president, said: "ValuJet has already begun its return-to-service plan."

However, he acknowledged that he could not say exactly when service would resume, or how many flights would be reintroduced: and some analysts said yesterday that the airline would be lucky to recover from such a blow to passenger confidence.

A few weeks ago, ValuJet was the most successful low-cost carrier in the US after Southwest Airlines, the company that first developed the concept of no-frills flights at low prices.

ValuJet began operations from its base in Atlanta, Georgia, in October 1993, with fares so low they generated new demand for air travel as well as attracting passengers from bigger airlines, buses and cars. In 2½ years it grew to serve 25 cities in 17 cities.

One factor that helped ValuJet expand so quickly was its decision to subcontract much of its aircraft maintenance instead of building up its own maintenance operations. That policy began to come under scrutiny last month when one of the airline's DC-9 aircraft crashed shortly after taking off from Miami, killing all 110 passengers and crew.

The crash is still under investigation, but it is thought to have been caused by an explosion among some oxygen mask equipment that had been loaded into the aircraft's cargo hold by one of ValuJet's maintenance contractors. Although the oxygen canisters were marked "empty", they contained volatile chemicals.

Immediately after the crash, the FAA said that ValuJet was safe. But in a sharp about-turn on Monday, it said intensive inspection had thrown up shortcomings that included a failure on ValuJet's part to establish the airworthiness of some its aircraft, deficiencies in its maintenance programme, and multiple shortcomings in the quality assurance of its contractors.

The FAA asked ValuJet to cease operations "until such time as it demonstrates appropriate corrective action". ValuJet said the FAA's action was "grossly unfair" because it had been denied the opportunity to respond to the FAA's concerns, but under pressure, it agreed to the suspension of services.

Such suspensions have precedents: for example, Kiwi International Airlines, another low-cost carrier, voluntarily suspended flights in December 1993 because of FAA concerns over its pilot training records. But the suspension lasted only a few days, and Kiwi had not had a crash.

On the plus side, ValuJet has enough cash to weather a temporary crisis. At the end of the first quarter to March it had $120m of cash on hand, and at the end of the following month it completed a $150m debt offering.

But Mr David Steamey, vice-president of Aviation Consulting, an airline and airport consultancy, said he thought ValuJet would have "a very difficult job" getting back into the air.

"I think the FAA will be very reluctant to be premature in letting ValuJet fly again," Mr Steamey said. "The company is going to have to cross every 't' and dot every 'i' in terms of its operational and maintenance compliance, and I don't see that happening in 30 days. I think it will be more like 45 to 60 days before some portion of their services can come back."

Mr Steamey said ValuJet faced additional difficulties because the suspension had come at the height of its busy summer season.

Meanwhile, other airlines had succeeded in getting their costs down to a level where they could compete on fares as low as ValuJet's, and would be ready to match ValuJet on a dollar-for-dollar basis if and when it came back.

"It's going to be extremely difficult," Mr Steamey said. "It's going to take a real fortitude check by ValuJet's leadership to see if they want to keep putting money into it."

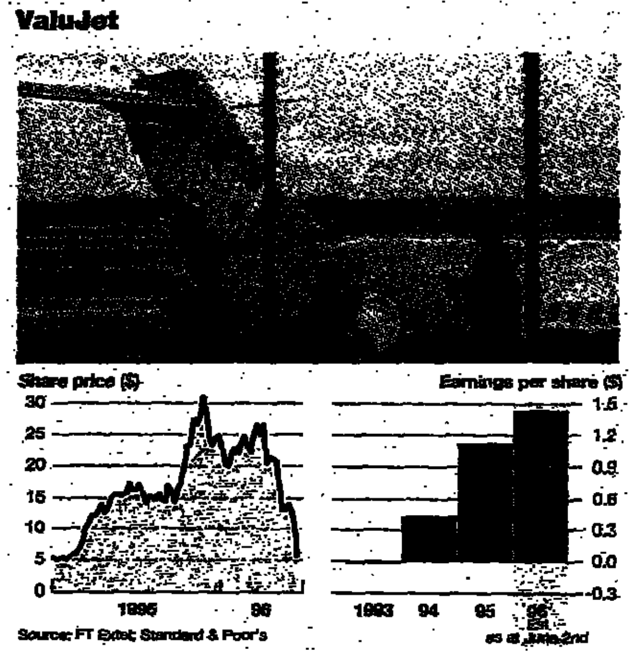
Mr Edward Phillips, air transport editor at Aviation Week, an aerospace industry publication, agreed. "It does not look good at all for ValuJet," he said.

"They have proven beyond doubt that there is a market there for the service they provide, but they would have to rebuild public confidence very slowly, and whether they would be able to survive on the loss of revenue that would require, I don't know.

"And if the FAA feels they are not making enough progress in getting these deficiencies corrected, that would be the end of ValuJet."

Richard Tomkins

ValuJet



Source: FT Extel; Standard & Poor's

NEWS DIGEST

Heinz operating profit trimmed

H. J. Heinz, the US foods company, reported a fall in profit margins for the final three months of its fiscal year. While sales were up 5 per cent at $2.5bn, with almost all of the growth coming from acquisitions, Heinz's operating income slipped 5 per cent to $306m, wiping more than a percentage point off its operating profit margin. The company attributed the fall to efforts to improve its market share in the US and "improve brand performance" for the next fiscal year.

A sharp fall in the tax charge, however, allowed Heinz to report an advance in net income for the most recent period, which ended on 1 May. The company's tax rate fell from 37 per cent to 30 per cent, due to overseas tax losses, leading to a 7 per cent advance in net income to $170m, or 45 cents a share. For the fiscal year as a whole, Heinz reported an 11 per cent rise in after-tax profits to $659m, or $1.75 a share, on sales of $9.1bn. *Richard Waters, New York*

ITT Sheraton seeks partners

ITT Sheraton, the US hotels group, said yesterday it was actively seeking partners in Europe for the expansion of its Four Points mid-market full service hotel brand. Mr Kirk Kinsell, president of franchise operations, said the company was looking for an affiliation with leading regional chain operators. It is seeking partners initially in the UK, Germany, Spain and Italy.

Sheraton, which launched Four Points in the US last August largely as a replacement for its Sheraton Inn brand, has 37 Four Points brand hotels in North America, is to open 11 in Latin America and plans to have 100 worldwide by the end of the first quarter of 1997.

Meanwhile, one London analyst believed ITT Corporation, Sheraton's parent company, which owns the Caesar's World gaming business in Las Vegas, is aiming for a tie-up with London Clubs, the UK casino operator.
Scheherazade Daneshkhu, Leisure Industries Correspondent

Bombardier to lift deliveries

Bombardier, the Canadian-based aerospace and transit equipment group, expects to deliver significantly more aircraft this year with a favourable impact on 1996-97 results, Mr Laurent Beaudoin, chairman, told yesterday's annual meeting. Last year Bombardier delivered 146 aircraft, including Regional Jets, turboprops and executive jets, up 23 from 1994-95.

The company's order book stands at almost C$6bn (US$4.39bn). Mr Beaudoin would not comment on industry reports saying Bombardier is near signing a C$1bn Regional Jet order with Continental Airlines of the US. The transit equipment side, with orders totalling C$3.5bn, expects more large orders in north America and Europe, and consumer products and financial services are making good contributions.

For the first quarter ended April 30, Bombardier earned C$74.1m, or 22 cents a share, on sales of C$1.6bn.
Robert Gibbens, Montreal

Case makes Austrian purchase

Steyr-Daimler-Puch, the Austrian machinery and vehicle group, yesterday announced plans to sell 75 per cent of its farming machinery division, SLT, to Case, a US machinery concern. The two companies said they had signed a letter of intent, but did not disclose the price of the transaction. Case also acquired an option for the remaining stake. SLT has annual sales of Sch2bn ($187m) and is expected to turn a profit for 1996 after several years of heavy losses.

Under the agreement, Case and SLT will keep separate production lines and will sell each other's products under their own names. *Eric Frey, Vienna*

Laidlaw revises Scott's bid

Laidlaw, the North American transport and waste management group, has revised its C$836m (US$611m) offer for Scott's Hospitality to avoid a legal challenge. The new bid is C$14 a share in cash and Laidlaw stock for all Scott's shares. The total price is unchanged, but the previous bid included C$6 in dividends from Scott's. Laidlaw will keep Scott's schoolbus business, while its fast food restaurant chain would end up a separate public company. *Robert Gibbens*

Shopping malls for sale

Marathon Realty, Canadian Pacific's property arm, plans to sell nine shopping malls in the US south-west to Cleveland's First Union Real Estate Investments for US$316m. The sale is part of Marathon's effort to raise nearly US$1bn from commercial and office property sales in Canada and the US. Marathon will retain about 12 office buildings in Montreal, Toronto and Vancouver. *Robert Gibbens*

Grupo ICA wins Malaysia deal

Grupo ICA, Mexico's biggest construction company, will soon be formally awarded a contract for work on Malaysia's proposed $6bn Bakun hydroelectric dam. ICA's work is expected to focus on civil engineering and may generate revenues for its associated companies of up to $250m. Other companies in the consortium responsible for the dam's construction include ABB of Sweden, Hyundai of South Korea and CBPO of Brazil. *Daniel Dombey, Mexico City*

Samsung profits success just a memory

A glut of D-Ram chips has hit prices, and the aspirations of the Korean manufacturer

Samsung Electronics was a study in corporate cockiness just a few short months ago. Its 1995 net profits jumped from Won945bn to Won2,506bn ($3.1bn), making it the biggest earner of any company in South Korean history, as a global shortage drove sales of its semiconductors to new heights.

The world market leader in memory chips had just concluded five-year supply contracts with leading international computer companies that appeared to guarantee stable sales until the end of the century. Mr Kim Kwang-ho, Samsung chairman, confidently told investors that 1996 earnings would reach a new high of Won3,200bn.

But his optimistic forecast has fallen flat, along with a decline in memory chip prices that has accelerated since April. Samsung's share price has halved since the beginning of the year as analysts have sharply downgraded earnings *predictions for 1996 and 1997.* Most say Samsung will be fortunate if it reports a net profit of Won800bn this year, while a few suggest it will incur a loss. The outlook for 1997 is considered even worse.

Samsung and the other main Korean chipmakers, Hyundai and LG, have fallen victim to a sudden glut in global memory chip production, and an unexpected slowdown in demand from computer companies.

International spot market prices for 16-megabit dynamic random access memory chips have plunged to as low as $10–$12, which is below Samsung's break-even point of $16, according to ING Barings Securities in Seoul.

Although Samsung's long-term supply contracts guarantee volume sales, it still must frequently re-negotiate prices on shipments.

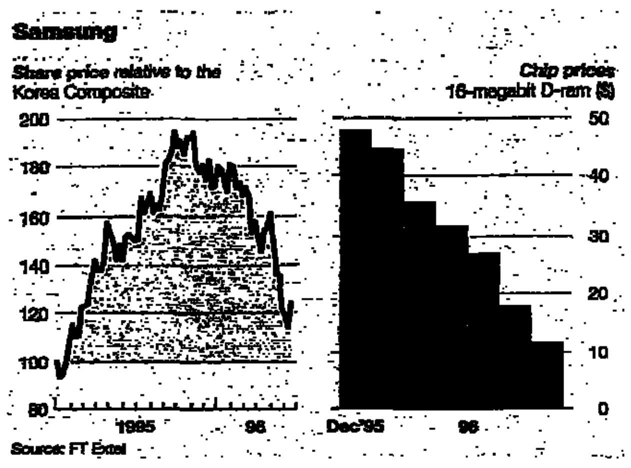
The collapse in memory chip prices is particularly bad news for the Korean semiconductor industry because of its dependence on D-rams, rather than microprocessors and other advanced chips that enjoyed fatter profit margins and a more stable, bigger market.

In an attempt to bolster chip prices, Samsung recently announced it would cut planned production of its mainstay 16-megabit D-ram by 15 per cent during the second half of the year, returning output to 1995 levels of 12m chips a month.

LG Semicon, scheduled to be listed on the Seoul bourse in August, has frozen monthly production at 8m chips, and unlisted Hyundai has reduced *planned production by 22 per* cent to 11m chips. The three Korean companies accounted for 31 per cent of total global D-Ram production last year.

Samsung is hoping the production cuts, which have been followed by Japanese chipmakers, will push up 16-megabit D-ram prices by $4 or $5. Officials note there has already been a price recovery recently, to $12–$14.

But analysts are sceptical that the cuts will halt the long-term slide in prices. Additional production capacity, particularly by new Taiwanese competitors, is expected to



come onstream shortly.

Chipmakers also need to sustain cash flow to finance depreciation of their new plants, which could force them to operate at full capacity in spite of running losses.

"It's a bit like the Organisation of Petroleum Exporting Countries. Everybody promises *to obey the production quotas,* but there will be some who will be tempted to cheat by dumping chips on the spot market," says Mr Neil Pidgeon, of HG Asia Securities in Hong Kong.

Korean chipmakers are taking other measures to bolster earnings. They are increasing production of faster synchronous D-Rams, which have been less affected by the price falls.

They also plan to accelerate a switch to 64-megabit D-Rams, the next generation of memory chips. Samsung and Hyundai are *considering* skipping 16-megabit D-Ram production at their new plants in the US in favour of 64-megabit chips.

But analysts believe the new mixture of memory chip products will do little to stem the profit decline, because global demand for synchronous D-Rams and 64-megabit mem*ory chips is not great.*

Unlike their US or Japanese rivals, none of the Korean chipmakers can rely on non-memory chips to rescue them, since these account for only 10-15 per cent of their semiconductor sales.

The Koreans are increasing investment in the development of non-memory chips, but this is not likely to pay off for several years.

With a recovery in chip prices not expected until 1998 at the earliest, Samsung Electronics cannot depend on its other divisions for earnings.

Its consumer electronics division is barely profitable. The computer and telecoms equip*ment units are performing* better, but accounted for only 24 per cent of sales last year. In another blow, Samsung's promising telecoms division recently lost a lucrative licence bid for a new domestic mobile telephone service.

Moreover, several recent acquisitions have not met expectations. Samsung bought 40 per cent of AST Research, a leading US personal computer maker, for $378m a year ago to bolster its computer operations. But AST's market share has dwindled since then, and it has lost $440m over seven consecutive quarters.

In spite of the problems, Samsung and other Korean chipmakers are expected to invest a total of $12bn in new chip factories to keep ahead of competitors and prepare for the next upswing in demand.

In an effort to maintain profits, analysts believe Samsung will slow its aggressive depre*ciation on new plant invest*ments from a scheduled two years to four.

Although most believe the global semiconductor industry is headed for a protracted price war, few doubt Samsung will emerge victorious. It has a stronger market position and greater financial resources than its Korean and Taiwanese competitors. "Samsung will feel the pain, but everyone else will feel it much worse," says Mr Andrew Holland, head of research at BZW Securities in Seoul.

John Burton

LG Group offers $60m investment in Petrobank

By Christopher Bobinski in Warsaw

LG Group, the South Korean industrial and financial group, has offered to invest $60m in Petrobank, a listed Polish bank which has specialised in servicing the country's petroleum sector.

The move promises to open a series of investments in Poland worth more than $300m as part of the group's strategy to expand in central Europe and elsewhere, Mr Moon Ho Lee, a senior LG executive, said yesterday.

It would give the group a 51 per cent share in the bank, whose capital would grow from 83m zlotys to 223m zlotys ($81.5m).

This would make it Poland's 13th largest bank and second among the foreign-owned banks behind ING, the Dutch financial group, which will *soon control Bank Slaski.*

The deal has been accepted by Petrobank's shareholders, but has yet to be approved by the National Bank of Poland, the central bank, and the country's securities commission.

LG's move into Poland follows that of Daewoo, another South Korean conglomerate, which is heavily involved in the car industry with investment commitments of more than $1.2bn.

Daewoo has also expressed interest in buying the state-owned Bank Depozytowo Kredytowy in Lublin, but has yet to win control.

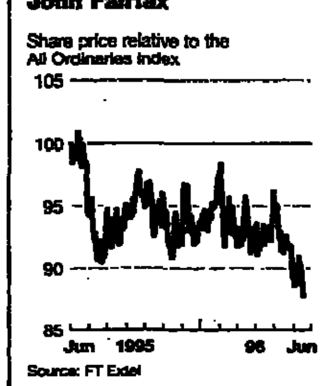
Petrobank, controlled by CPN, the state-owned petrol distribution network, was listed on the Warsaw Stock Exchange last October. Its current share price of 10 zlotys values the bank at 111.3m zlotys. LG has promised to pay 12 zlotys a share in its capital increase.

Mr Chong S. Lee, a senior managing director at LG, said his company was interested in investing in a project to build a new petrochemical plant at Kedzierzyn, southern Poland, at a cost of around $1.8bn.

The plant would process 6m tonnes of oil a year. A feasibility study is being conducted by Fluor Daniel of the US.

NEWS DIGEST

Murdoch stake talk lifts Fairfax shares



Shares in John Fairfax, Australia's leading newspaper publisher, jumped almost 5 per cent yesterday, to A$2.78, amid unconfirmed reports that Mr Rupert Murdoch's News Corporation was interested in raising its stake to equal that held by Mr Kerry Packer, the Australian businessman. News owns less than 5 per cent of Fairfax. Mr Packer holds around 17 per cent, but is barred from going higher by Australia's restrictions on "cross-ownership" of media *assets. The largest stake in* Fairfax, which publishes the leading heavyweight dailies in Sydney and Melbourne, is owned by Mr Conrad Black, the Canadian media entrepreneur. This stands at 25 per cent, and cannot be raised because of foreign ownership constraints.

The Murdoch speculation, however, was quickly damped by Professor Allan Fels, head of the Australian Competition and Consumer Commission. While he declined to comment on whether there had been an informal approach from News, he said the ACCC would scrutinise any application for its effect *on competition. "I've not given a magic number [for the News* holding in Fairfax], but numbers like 15 per cent would be of substantial, very substantial concern," he said. There has long been speculation on the ownership of Fairfax, and Mr Packer has said he would like to control the business. The new conservative federal government has promised to set up an inquiry into contraints on media ownership.

Nikki Tait and agencies, Sydney

● The ACCC said yesterday it would not oppose the purchase by the *UK's Chubb group of MSS Security,* saying the deal was unlikely to reduce competition substantially in the security services market. *Nikki Tait*

ANI to spin off Coates Hire

Australian National Industries, the troubled heavy engineering group which owns the Aurora business in the UK, is floating its Coates Hire business as a separately-listed entity, raising A$167.4m (US$132.5m). Coates is one of the largest general equipment hire companies in Australia, and has three branches in Indonesia. Sales in the year to end-June 1996 were put at just under A$110m. The sale is part of ANI's plan to concentrate on its core metals and engineering business. It will raise A$136m from the sale and a further A$31m mainly from the repayment of inter-company loans. ANI says it should book an abnormal after-tax profit of around A$45m on the disposal. *Nikki Tait*

HSBC Holdings eyes Singapore

HSBC Holdings wants to buy a stake in a Singapore brokerage which would give it management control. Mr William Purves, chairman, was yesterday quoted in Singapore's Business Times newspaper as saying the group stockbroking arm, James Capel, was looking to participate in the Singapore market. HSBC Holdings recently sold its 34 per cent stake in joint venture Kay Hian James Capel, and there were rumours that James Capel was negotiating a stake in another brokerage. *Reuter, Singapore*

Mondex franchises sold to Australian banks

By Motoko Rich in London

Mondex, the electronic cash initiative backed by National Westminster Bank and Midland Bank, the UK clearing banks, has sold franchise rights to Australia's four largest banks.

ANZ Bank, Commonwealth Bank of Australia, NAB and Westpac Banking Corporation have bought the rights to offer *Mondex's "electronic purse" to* customers. ANZ New Zealand, Bank of New Zealand, Countrywide Banking Corporation, National Bank of New Zealand, ASB Bank and Westpac have also bought rights.

Mondex is a computer chip-based card used for small transactions that do not need to be authorised by the user's bank. The card can be used to transfer value from one individual to another, and for high street purchases.

The international market for *electronic purses is being con*tested by the leading payment card operators – Visa, MasterCard and Europay. Visa's stored-value cash card is being tested by the Australian banks on the Gold Coast, Queensland, and MasterCard's electronic purse is on trial in Canberra.

Mr Tim Jones, Mondex chief executive, said: "This is a significant announcement because we have a group of sophisticated retail banks, who have already been involved in trials of VisaCash and Master *Card's electronic cash product,* announcing a multi-million pound investment in Mondex."

In the UK, Mondex has been on trial among 10,000 NatWest and Midland customers for nearly a year. Mondex plans to launch the card nationally around 1998.

Mr Jones said the banks in Australia and New Zealand were likely to test Mondex in internal trials before deciding whether to launch it nationally. Mondex has sold franchise rights in Hong Kong, Canada, the US and in 10 countries in east Asia, including China, India and Indonesia.

He said Mondex differed from other electronic purses in that it was a cash replacement rather than a cash alternative.

Mondex has been criticised for not providing an audit trail of transactions and not conforming with global "interoperability" standards agreed by Europay, Visa and Mastercard. However, card verification terminal suppliers, such as Verifone and Dassault, have designed electronic point-of-sale systems which accept all cards, including Mondex.

Mayflower's shares slip as Tenneco grabs for Pullman

By Tim Burt

Shares in Mayflower, the UK engineering company, yesterday fell by 11 per cent after its £226m takeover bid for Pullman, the US automotive components group, was trumped by a $300m offer from Tenneco, the Houston-based industrial conglomerate.

Mayflower, which saw its shares end the day down 13½p at 108½p, was said to be considering whether to withdraw its bid or make a revised offer.

Senior executives yesterday sought a meeting with Pullman following Tenneco's announcement that it had agreed a "definitive deal" with Pullman, whose only operating business, Clevite, makes vibration control components.

The underwriters for Mayflower's 7-for-10 rights issue, announced earlier this month to fund part of the cash offer, have not yet been told to stand down.

Tenneco, however, said it expected to complete the acquisition shortly and would integrate Clevite into its Monroe automotive subsidiary.

The US conglomerate, which also operates large packaging and energy divisions, added that the deal would be funded from its $2.52bn credit facilities.

Mr Dick Snell, chief executive of Tenneco's automotive division, said: "Clevite enhances our ability to serve the global automotive market. Not only are our product lines complementary, but Clevite's established name and focus on the customer are key factors in our ongoing success."

If Tenneco should succeed with its offer, Mayflower stands to receive $8.5m from Pullman to cover its acquisition expenses.

Nevertheless, industry analysts in London expressed disappointment that Mayflower had been outbid, but did not rule out a higher offer.

"It was a good industrial fit and promised to be earnings enhancing, so they might have another go," said one analyst.

Mayflower's advisers were last night studying Tenneco's offer and hinted at a further statement today.

Clevite was seen by Mayflower as a logical addition to its vehicle engineering business.

The US company makes suspension bushes, engine mounts and tie-rods for the big US car and truck manufacturers. Such components are becoming much more sophisticated and, in some cases, electronically powered, as US vehicle makers seek to improve ride and handling qualities. As a result, Clevite's earnings per vehicle have been rising sharply.

Clevite's activities would have plugged one of the gaps in Mayflower's engineering expertise, as it moves closer to its goal of being able to design and produce niche vehicles for car or truck makers by early next decade.

Cowie £186m rights to buy British Bus

By Geoff Dyer

Cowie Group's £282.3m ($432m) acquisition of British Bus, which was announced yesterday, ends a three-year push by the motor distribution and leasing group to become a leading force in the UK bus industry.

The agreed deal, the largest yet in the bus industry, is to be financed by a £186m rights issue. It transforms Cowie from one of the sector's minnows into the third-largest bus operator with a 16 per cent market share.

According to Mr Gordon Hodgson, chief executive, this was "the last remaining opportunity" to buy a large independent bus company in the UK. The deal includes a £20m earn-out.

The acquisition takes Cowie's bus operations out of the regulated London market into areas such as Northumbria, Scotland and Wales and gives the group a platform to make several smaller bus acquisitions, he said.

On the face of it, analysts say the British Bus deal achieves all the group's goals. In terms of strategy, it gives Cowie a more reliable and less cyclical stream of earnings than its motor retailing division.

Financially, analysts calculate that the acquisition will be earnings enhancing in the first year and gearing will be unchanged at around 180 per cent.

The market reaction reflects this judgment. Despite the 1-for-3 rights issue at 355p, a modest 12 per cent discount to Monday's closing price, the shares gained 3p yesterday to 409p.

While the deal may enhance earnings, several bus industry experts were of the view Cowie paid a high price for British Bus, which had a 1995 turnover of £261m.

The consideration is around 1.1 times revenues which is in line with recent deals in the sector.

Eurotherm shares fall on caution over sales

By Christopher Price

Eurotherm, the industrial control manufacturer, yesterday reported record first half pre-tax profits of £18.7m ($28.6m), up 18 per cent.

However, the company cautioned that tougher trading conditions were adversely affecting the rate of sales growth. The shares fell 32p to 605p.

Mr Claes Hultman, deputy chairman and chief executive, struck a more optimistic note. "With the kind of growth rates we had been experiencing, it would be surprising if we were to continue at those levels. All we are saying is that our growth rates are likely to be more normal."

Turnover rose 12 per cent to £102.2m. Within this, sales from the controls and instrumentations division were flat, with operating profits declining slightly to £11.5m. Closure of a lossmaking business would help profits growth.

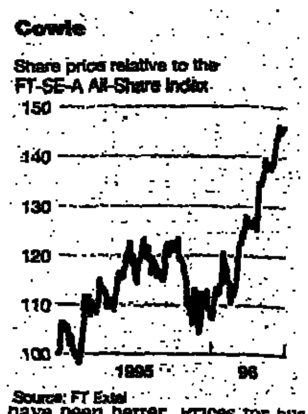
In the drives division, profits increased 12 per cent to £5.6m. Profits from the ganging business jumped from £100,000 to £1.9m.

Eurotherm's cash balance rose from £21.7m to £38.7m. Mr Hultman said the company would continue to search for acquisitions, although he was wary of the high prices being struck within the company's markets.

LEX COMMENT

Cowie

From where Cowie is sitting, it is easy to see why running buses should look attractive. In contrast to its motor dealership operation, the bus business offers double-digit margins in some areas and scope to get to that sort of level elsewhere. And unlike its car leasing business, there is further room for expansion. Having taken advantage of privatisation to expand its bus business, Cowie already knows the market: this is not a desperate or ill-conceived diversification.



Source: FT Extel

Arguably, the timing could have been better. Prices for bus companies have probably peaked, as the two largest, Stagecoach and FirstBus, have been forced to end their buying sprees by competition constraints. True, at 1.1 times turnover, the price is slightly below the peak of 1.2 times. But that was for companies in lucrative urban areas; British Bus has a mix of urban and rural routes. Furthermore, having cancelled its flotation following a Serious Fraud Office inquiry into two directors, British Bus was something of a forced seller. But Cowie still had to pay enough to keep the venture capitalists sweet, and the result is that the price is reasonable enough, but not the bargain Cowie's shareholders might have hoped for under the circumstances.

However, an earnings enhancing deal, with scope for cost-cutting, should keep Cowie's share price on the right track for a while. And with 16 per cent of the bus market, Cowie still has room for some fill-in acquisitions. It would certainly do better to spend the cash left after the rights issue on more bus routes – or a rail franchise – than on more car dealerships.

Aim hopes for more happy returns

Christopher Price helps celebrate the smaller market's first year

It is a birthday some critics thought might never be celebrated. But not only is the Alternative Investment Market a year old today, it is in robust health.

The original 10 members have swollen to 164, the market capitalisation has grown to £3.5bn ($5.4bn) and the amount of money raised stands at £353m. Aim is even being credited with inspiring plans for other small company markets across Europe.

Such success has been born of a combination of astute manoeuvring by the London Stock Exchange and no small measure of good fortune. And along the way, perceptions of Aim among investors, market professionals and companies have been transformed.

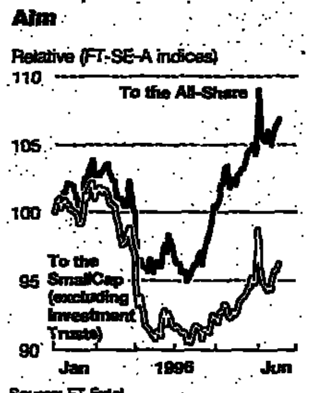
The new market was conceived as successor to the Unlisted Securities Market, which had become largely indistinguishable from the full list in its joining requirements and was in need of substantial changes to widen its appeal.

Aim's membership rules were thus kept as relaxed as possible to encourage a wide variety of companies to join and to keep the costs of membership and capital-raising to a minimum.

However, the plans ran into criticism from institutional investors, many of whom were wary of young companies, and particularly any relaxation in the scrutinising of companies and their accounts.

The stock exchange beefed up some of the Aim membership requirements, introducing the role of nominated adviser who would act as a company's unofficial sponsor in verifying its financial health.

The result was just 10 companies on the first day of trading, some institutions threatening a boycott, and pessimistic forecasts on the outlook for the new market.



Source: FT Extel

Aim: the first ten, one year on

	Market Value £m	Admission price (p) June 19 '95	Price (p) June 18 '96	% change
Dawson Holdings	79.37	615	1665	170.7
Lorien	18.81	155	330	112.9
[illegible]	17.03	88	161	83.0
Old English Pub	18.21	80	148	85.0
Country Gardens	15.37	60	83	38.3
Brancote	6.32	48	63	31.3
[illegible]	28.68	8	10	21.2
Norcity II	0.82	63	75	19.0
Athelney Trust	1.13	53	63	18.9
Norhomes	1.22	63	63	0.0

Source: Stock Exchange, Datastream

While the stock exchange can take some credit, favourable market conditions have underpinned Aim's success. Perhaps most significant has been the bull market, which has helped a large number of Aim stocks to trade well above their listing prices. Brisk trading in many Aim shares has also improved liquidity, one of the biggest drawbacks to a smaller companies market.

But it has not all been plain sailing for Aim. Memory Corporation, a supplier of reconstructed microchips, sent shudders through the market earlier this year when it announced increased losses, followed by a warning over future profitability. The sharp fall in the share price of the group, which was one of the largest constituents of the market, was enough to pull down the entire Aim index.

Finally, the tax breaks that Aim was allowed in order to attract investors have not covered as wide a range of stocks as expected. In particular, capital gains tax relief has been ruled unsuitable for companies engaged in certain activities, such as property investment.

It is to Aim's credit that it has brushed aside these difficulties. The number of institutions investing in the market is growing and KPMG, the accountants, estimate that the number of members will increase to 230 by the end of the year.

The way the market reacts to more testing events, such as a large corporate collapse or, more importantly, a bear market, will be the ultimate test of its lasting credibility.

C&W gain on AsiaSat holding

By Joan Gray

Shares in Cable and Wireless, the telecoms group, closed 9p higher yesterday at 420p after the company announced that it would add £60m to its pre-tax results for the half year to September as a result of the oversubscribed initial public offering in Asia Satellite Communications.

AsiaSat, a provider of satellite transponder capacity in Asia, has been equally owned since its foundation in 1988 by C&W, the China International Trust and Investment Corporation, which is Beijing's main investment vehicle, and Hutchison Whampoa, the Hong Kong conglomerate.

NEWS DIGEST

BAe's Asia-Pacific HQ to be Australia

British Aerospace, the British defence company, has formally confirmed that it is basing its Asia-Pacific regional headquarters in Australia. The company has had an long-established presence in the country but stepped this up recently, buying AWA Defence Industries. It is now the fourth largest defence contractor, with annual sales in excess of A$260m ($206m).

McDonnell Douglas, the US defence and aerospace group, is opening a Sydney office. *Nikki Tait*

Meggitt US sale and purchase

Meggitt, specialist engineer and maker of electronic instruments mainly for the aviation industry, has sold Plastic Fabricating, a US subsidiary, for a minimum of $250,000 cash and bought Cartwright Electronics for $10m cash.

Cartwright, a privately owned company based in California, is the primary supplier of radar-based electronic scoring systems and sensors systems to the US Government, whose approval of the purchase is required. In the year to December, it made pre-tax profits of $1.6m on sales of $11.3m. Net assets at completion are expected to be $3.4m.

Bunzl buys US distributor

Bunzl is to buy Jedco Paper, a Pennsylvania-based distributor of paper and plastic disposable items. It recorded sales of $26.4m in the year to March 3. Net assets acquired on completion are estimated to be $1.4m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amber Indl	Yr to Mar 31	25.7	(25.1)	4.1	(4.19)	14.1	(14.9)	4	Aug 5	3.875	5.75	5.625
Banner Homes	Yr to Mar 31 ★	27.93	(16.6)	0.751	(1.268)	1.2	(6.1)	0.3	Sept 6	0.7	0.7	1.4
Carpetright	Yr to Apr 27	185.3	(141.3)	25.2	(19.7)	22.3	(18.8)	9	Sept 13	5.5	14.5	10.5
Eurotherm	6 mths to Apr 30	102.2	(91)	18.7	(15.8)	13.4	(11.7)	4	Aug 30	3	-	7.5
FirstBus	Yr to Mar 31 ‡	356.3	(329.1)	22♣	(24.8)	7.2	(8.2)	3.4	Aug 30	-	5	-
First Leisure	6 mths to Apr 30	82.9	(71)	18.1¶	(17.2¶)	8.15	(7.63)	2.51	Oct 31	2.33	-	7.72
Greene King	53 wks to May 5	185	(154.4)	24.7	(22.1¶)	42.8	(39.3)	11	Sept 5	9.9	15.5	14
Harris (Philip)	Yr to Mar 31	120.3	(102.7)	2.05♣	(2.28)	13.31	(14.41)	5.75	Aug 1	4.9	8.2	7.1
Hazlewood Foods	Yr to Mar 31	786	(630.2)	34	(27.8♣)	13.69	(19.21)	4.3	Oct 1	4.3	6.7	6.7
Intercare	6 mths to Apr 30	21.2	(22.3)	0.556	(0.822)	1.3	(1.8)	0.7	Aug 6	0.7	-	3.5
IWP Intl	Yr to Mar 31	165.3	(150.1)	18.1♣	(16.5♣)	31.1	(28.9)	5.7	Sept 21	5.2	9.7	8.6
LPA Inds	6 mths to Mar 31	2.82	(2.72)	0.276¶	(0.225)	2.07	(1.65)	0.97	July 31	0.88	-	1.76
Mountview Estates	Yr to Mar 31	18.1	(17.2)	7.9	(9.3)	115.5	(136.6)	15	Aug 15	15	27	27
RPC	Yr to Mar 31	95.6	(78.4)	8.65	(6.03)	10.4	(8.6)	2.6	Aug 9	2.35	3.9	3.45
Sutcliffe Speakman	Yr to Mar 31	38.2	(23.1)	2.26♣	(1.01♣)	2.26	(0.55)	0.525	Aug 30	0.25	0.85‡	0.5
Tinsley (Eliza)	Yr to Mar 31	28.8	(16.3)	1.25	(0.842)	9.017	(7.69)	3.8	Oct 1	3.65	5.6	5.61
Tring Intl	Yr to Mar 31	28.6	(25.5)	3.02	(3.76)	4.62	(9.09)	0.5	Aug 28	2.84	1.92	4.26
Versailles	Yr to Feb 29	72.7	(46.6)	3.21	(2.1)	0.94	(0.68)	0.195	Aug 9	-	0.195	-
Watson & Philip	6 mths to Apr 28	276	(229.9)	6.78	(6.32¶)	12	(11.3)	5.3	Aug 2	5	-	16.5
Wellman	Yr to Mar 31	130.3	(95.6)	10.2	(6.82)	5.7	(5.4)	1.35	Aug 29	1.2	1.8	1.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Smaller	Yr to Apr 30	215.8	(161.6)	2.63	(2.55)	2.51	(2.43)	1.53	Aug 2	1.37	2.33	2.11
Jupiter Extra	6 mths to Mar 31	111.95	(108.79)	1.8	(1.79)	4.84	(4.8)	1.98875♦	July 15	1.96875	-	7.875

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♣After exceptional charge. ¶After exceptional credit. ‡Comparatives pro forma. †On increased capital. §Irish currency. ♦Nav stock. §USM stock. Includes interim paid as foreign income dividend. ♦Second interim; makes 3.9375p to date.

COMMODITIES AND AGRICULTURE

Emerging markets lead energy demand growth

By Robert Corzine

Emerging economies last year accounted for virtually all of the growth in world oil demand as the centre of gravity of the international energy market continued to shift toward Asia.

Economists at British Petroleum yesterday reported that Malaysia was the fastest growing oil market in 1995, with a 15.5 per cent increase, while total oil consumption in Asia's emerging market economies rose by 7.3 per cent.

Turkey and South Africa were the fastest growing energy markets outside south-east Asia, while India overtook the UK and Canada to become the seventh largest energy market.

Mr John Browne, BP's chief executive, noted that ten years ago Asia "used one barrel in six of the world's consumption of oil. Now it uses one in four".

The company's annual review of world energy trends showed, however, that reserves of fossil fuels were more than adequate to satisfy world demand.

Mr Peter Davies, BP's chief economist, said "the proven resource base [for oil and natural gas] has increased, and is currently at or extremely close to all time high levels... A shortage of reserves is very unlikely in the foreseeable future".

The key issues, he said, "are more cost and investment than resources".

Proven oil reserves were put at more than 1,000bn barrels, a level which could satisfy current demand for 43 years. About two-thirds of the total is in the Middle East, although oil producing states outside the Organisation of Petroleum Exporting Countries have also added to their reserves in recent years in spite of current, high production levels.

Proven natural gas reserves of 139,700bn cubic meters are equivalent to 880bn barrels of oil. These too, "are more than adequate for foreseeable needs on a global scale," according to Mr Davies.

He said worldwide energy consumption patterns have stabilised and are now driven largely by economic and population growth.

Energy consumption last year grew by 1.8 per cent, more than double the average over the past five years and the highest rate since 1989. The figure was influenced by a "marked slowing" in the rate of decline in energy usage in the former Soviet Union.

Total world oil consumption of 68m barrels a day rose by 1.2 per cent in 1995 and by 1.9 per cent outside the FSU. Centres of strong oil demand included central Europe, with an average increase of eight per cent. Another high demand area was Latin America, where Brazil, Colombia and Chile recorded growth rates approaching those in Asia.

Oil prices for the year averaged $17.18 for the benchmark Brent Blend, a 7.5 per cent increase over 1994.

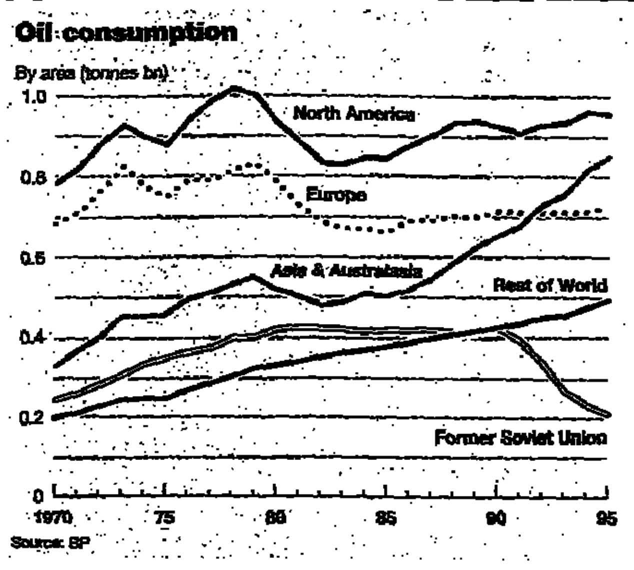
Natural gas was the fastest growing fossil fuel. Consumption outside the FSU was up by 5.2 per cent, well above the 10-year average of 3.5 per cent. Demand was particularly high in western Europe (up 7 per cent), where the UK overtook the Netherlands as the biggest producer.

Coal demand in Asia remained buoyant, with consumption up 4.5 per cent, although its use in Europe continued to decline.

Consumption of nuclear power grew by 4 per cent, while use of hydroelectric power rose by six per cent, mainly as a result of higher reservoir levels in the US.

BP Statistical Review of World Energy 1996, available from Group Media & Publications, The British Petroleum Company, Britannic House, 1 Finsbury Circus, London EC2M 7BA

Oil consumption



Source: BP

Price volatility 'threatening aluminium can market'

By Kenneth Gooding, Mining Correspondent

Aluminium's best market – for beverage cans in North America – is under threat because some metal producers are insisting on linking prices they charge can makers to volatile London Metal Exchange prices.

Mr Ronald Thoma, executive vice president, procurement and traffic for Crown Cork & Seal Company, said the move had stopped growth in demand for beverage cans in the US and caused a switch back to steel in Europe. He that the LME based pricing was "very short sighted" as it would also damage the prospects in the rest of the world as the industry attempted to build demand for aluminium cans.

At the first World Aluminium Conference organised by the Financial Times and the CRU International consultancy organisation, Mr Thoma pointed out that the LME aluminium price had dropped in the wake of the copper turmoil for no sensible reason. "The LME is an easily manipulated market, as the Sumitomo affair shows," he complained.

He said the aluminium beverage can's main competitor, PET, a polyester-based plastic used for bottles, had overcome its main competitive disadvantages. A new formulation allowed PET to store liquids for between 9 and 12 months compared with the aluminium can's 6 to 12 months. Also, a great deal of new PET production capacity was being added which indicated prices should be stable or lower for the next four or five years.

Beverage cans in the US account for about 10 per cent of global aluminium consumption. Mr Thoma said that, without the introduction of LME-linked prices for can sheet last year, the US market would have grown by another 3bn cans. Instead it fell 10bn. "Our customers had no confidence to advertise their products because they did not know what a can would cost when they launched their products."

He called for a return to the system where can sheet prices were fixed annually between producers and consumers. "Then everybody could move ahead with confidence."

Mr Thoma recalled that six can lines in Europe had been switched from aluminium to steel last year, influenced by the change in pricing in the US, cutting aluminium's share of the region's beverage can market from 65 to 45 per cent.

He said beverage can makers would be prepared to pay a price that would give aluminium producers a fair rate of return on can sheet, roughly $1.2 or $1.3 a pound, in return for stable prices.

Mr Richard Boehman, executive vice president, Hydro Aluminium Extrusion, stressed that stable aluminium prices were essential if the metal was to make the headway forecast in the automotive market - Hydro was forecasting aluminium use in cars would nearly double between 1995 and 2005, from 65kg a car to 110 kg.

He said innovative methods of overcoming price volatility were being looked for but there was hesitation by both producers and consumers in case they found themselves badly wrong footed by LME prices.

Mr Ray Sampson, the LME's marketing director, pointed out that the exchange existed to provide producers and consumers with a way of hedging to lock in prices and avoid volatility. He doubted whether a system of long term prices agreed between producers and consumers would work.

Dispute hits Queensland's Dalrymple Bay coal port

By Gerard McCloskey

One of Australia's biggest coal-exporting ports, Dalrymple Bay in Queensland, has been put out of action by a dispute over union representation. No ships have been loaded at the port since Tuesday last week.

A decision by the Construction, Forestry, Mining and Energy Union to stop work for 48 hours became an indefinite strike on Friday and has since spread to the Port Kembla coal terminal in New South Wales.

The union is objecting to a decision by the Queensland Industrial Relations Court to give sole representation for workers at the port to the Australian Workers Union. That decision is reported to have been backed by the mining companies, who wish to diminish the power of the CFMEU, which is already strongly represented at the mines.

The port is used by many of Australia's biggest coal producers – such as CRA, BHP, MIM Shell and North Goonyella – and the suspension of train unloading and ship loading will hit the market immediately. Both steam and coking coal is in extremely tight supply in Australia and many vessels are queueing to load at Newcastle in New South Wales. The option of steam coal customers to switch to Asia's two other major suppliers, South Africa and China, is unrealistic, with the South Africans still trying to catch up on its shipping schedules. These were hit by mining problems following the breaking of the long drought earlier this year. China's exports are falling because of rail congestion.

Port Kembla was dragged into the dispute when port workers refused to load a Shell Australia cargo of coking coal because of Shell's involvement in Dalrymple Bay. Newcastle's Port Waratah may also be hit in sympathy action by the Maritime Union of Australia. There is also a threat to carry the strike to the CRA, MIM and Shell Australia mines.

'Breath-taking' upsurge forecast

The price outlook for aluminium "is very much like a Lamborghini in neutral," Mr Nick Moore, director of Flemings Global Mining Group, told the conference. "When it gets put into gear the price rise will take your breath away."

He suggested that by the end of 1997 aluminium stocks were likely to be at critically low levels. By late next year the aluminium price should be above US$1 a pound ($2,240 a tonne). "Thereafter, with a helping hand from our commodity fund players, prices could comfortably double from the present 68 cents a pound ($1,499 a tonne) with short term peaks in excess of $1.50 ($3,306)."

Mr Keith Murphy, managing director, Commodities, JP Morgan, said hedge funds would become more active in the metals markets. They were hiring traders and developing commodity trading teams of their own. This was bound to add to price volatility. But funds would also provide extra liquidity to metals markets.

Mr Gerald Janicki, director, advanced structures & materials, advanced transport aircraft development, McDonnell Douglas Aerospace, said his industry would buy about $25bn of aluminium in the next 20 years.

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	+9,800	to 893,100
Aluminium alloy	-540	to 85,460
Copper	-17,625	to 267,775
Lead	Unch	to 91,725
Nickel	-900	to 32,676
Zinc	-1,950	to 593,850
Tin	+585	to 11,068

German farm ministry urges quicker EU switch to market pricing

By Michael Lindemann in Bonn

Germany's agriculture ministry has warned that the present system of agricultural subsidies operating in Europe will collapse by 2000 at the latest unless there is a faster switch-over to market prices.

An internal ministry paper, which the government plans to discuss with Germany's 16 *Länder* in the autumn, points out that market prices are needed if the European Union's Common Agricultural Policy is to have any chance of coping with the accession of several agriculture-dependent central European countries.

According to ministry estimates, countries like Poland, Hungary and the Czech Republic – likely to be among the first wave of new entrants – will contribute only about 4 per cent to the EU budget if they join in 2000 but will receive about 20 per cent of the money spent on the CAP.

"The systems are so totally different," said a senior official. "The central Europeans operate a system with world market prices while we have a system where prices are above the world prices because we have to subsidise them."

Officials admitted that there was growing pressure for a so-called "reform of reforms" to overhaul the entire system and relieve the CAP burden on consumers and taxpayers.

However, the ministry appears to favour a more gradual approach, which would correct features of the present system, itself overhauled in 1992.

Although surplus production has been reduced significantly and farmers' incomes have been stabilised, the paper points out that a vast apparatus is needed to administer the CAP. The present system also keeps the rental prices of land at artificially high levels because subsidies are paid on the basis of acreage.

The paper warns that unless Germany acts now to reform the CAP it will find itself unable to defend its own interests against an ever more powerful European Commission.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1497.5-8.5	1505-6
Previous	1456.5-6.5	1486-7
High/low		1511/1484
AM Official	1449.5-50.5	1485.5-7.0
Kerb close		1506-9
Open int.	249,688	
Total daily turnover	64,727	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1240-50	1280-5
Previous	1220-5	1265-70
High/low		1285/1260
AM Official	1225-35	1265-75
Kerb close		1285-95
Open int.	5,087	
Total daily turnover	1,328	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	789-800	804-5
Previous	772.5-3.5	780-1
High/low	795/794	808/791
AM Official	793.5-4.0	798.5-9.0
Kerb close		803-4
Open int.	33,711	
Total daily turnover	12,519	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7770-80	7875-85
Previous	7665-85	7765-70
High/low	7685	7900/7775
AM Official	7685-8	7795-800
Kerb close		7885-70
Open int.	44,665	
Total daily turnover	18,482	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6150-60	6175-80
Previous	6170-80	6175-80
High/low		6195/6170
AM Official	6165-70	6170-80
Kerb close		6170-5
Open int.	16,312	
Total daily turnover	3,661	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1005.5-6.5	1032-3
Previous	998-1000	1025-6
High/low		1034/1027
AM Official	1003-4	1029-30
Kerb close		1032-3
Open int.	75,594	
Total daily turnover	24,591	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2057-60	2002-5
Previous	2080-90	1960-1
High/low	2055/2045	2030/1955
AM Official	2064-5	1995-2000
Kerb close		1985-90
Open int.	190,071	
Total daily turnover	119,483	

■ LME AM Official £/$ rate: 1.5468
LME Closing £/$ rate: 1.5456
Spot: 1.5437 3 mths: 1.5427 6 mths: 1.5429 9 mths: 1.5435

■ HIGH GRADE COPPER (COMEX)
[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET
[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	385.4	+0.4	385.0	384.0	26	78
Jul	386.3	+0.4	-	-	-	-
Aug	387.7	+0.4	388.1	386.6	11,506	88,959
[illegible]						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)
[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)
[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)
[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)
[illegible]

■ CRUDE OIL IPE ($/barrel)
[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)
[illegible]

■ GAS OIL IPE ($/tonne)
[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)
[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)
[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	114.90	-0.35	114.65	113.75	119	663
Sep	112.25	-1.00	112.50	112.50	2	360
Nov	114.55	-0.30	114.75	114.10	141	2,995
[illegible]						

■ WHEAT CBT (5,000bu min; cents/60lb bushel)
[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)
[illegible]

■ BARLEY LCE (£ per tonne)
[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)
[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)
[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)
[illegible]

■ POTATOES LCE (£/tonne)
[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)
[illegible]

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1099	+6	1105	1092	531	8,673
Sep	1124	+5	1130	1116	1,459	44,960
Dec	1047	+4	1051	1039	530	39,980
[illegible]						

■ COCOA CSCE (10 tonnes; $/tonnes)
[illegible]

■ COCOA (ICCO) (SDR's/tonne)
[illegible]

■ COFFEE LCE ($/tonne)
[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)
[illegible]

■ COFFEE (ICO) (US cents/pound)
[illegible]

■ WHITE SUGAR LCE ($/tonne)
[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)
[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)
[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)
[illegible]

VOLUME DATA
[illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)
[illegible]

■ CRB Futures (Base: 1967=100)
[illegible]

■ GSCI Spot (Base: 1970=100)
[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	62.275	-0.825	63.000	62.250	7,541	3,896
Aug	65.175	-0.8	65.775	64.950	5,320	39,775
Oct	66.075	-0.775	66.775	66.025	1,399	24,198
[illegible]						

■ LIVE HOGS CME (40,000lbs; cents/lbs)
[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)
[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME
[illegible]

■ COPPER (Grade A) LME
[illegible]

■ COFFEE LCE
[illegible]

■ COCOA LCE
[illegible]

■ BRENT CRUDE IPE
[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)
[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)
[illegible]

■ NATURAL GAS (Pence/therm)
[illegible]

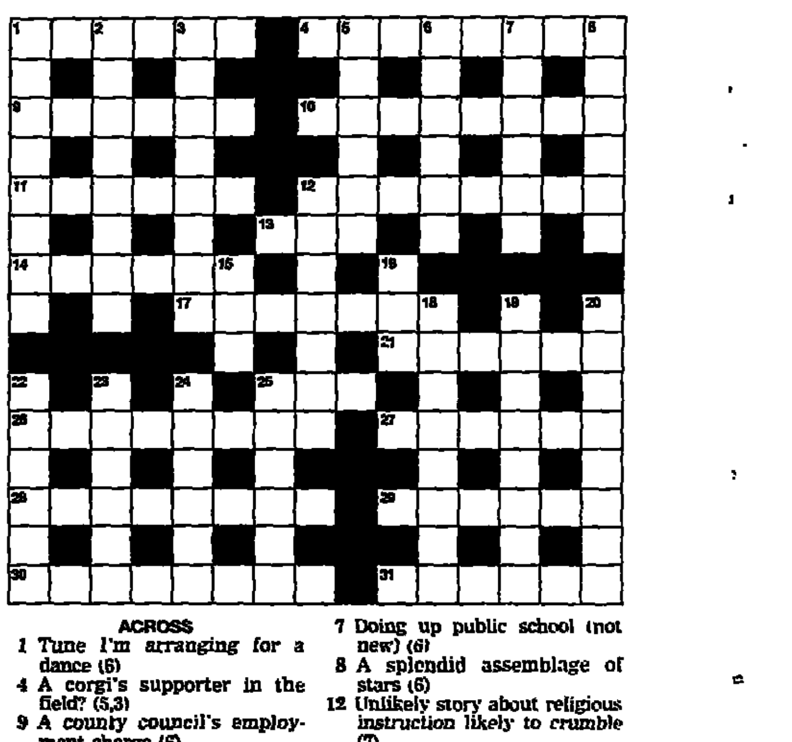
■ OTHER
[illegible]

Minor Metals
[illegible]

JOTTER PAD

CROSSWORD

No.9,098 Set by QUARK



ACROSS
1 Tune I'm arranging for a dance (6)
4 A corgi's supporter in the field? (3,5)
9 A county council's employment charge (6)
10 Working over a clay-pit is not the norm (8)
11 Drunk encountered within reversing certain signs (6)
12 Military reservation, a garrison receiving hits, we hear (4,4)
13 No way to begin painting (3)
14 Is mule out of sorts? Here's the oats, etc (6)
17 Check bit of butter in marge being spread round (7)
21 Make mistake and trip performing task (6)
25 Crafty Christopher? (3)
26 Curtain in one length easy to repeat? (8)
27 Pub's account for wine (6)
28 Obliged to play end hole with bit of bravado (8)
29 Equip the soldier returning in heavy defeat (3,3)
30 Gun watch (8)
31 Worked industriously with fuel? (6)

DOWN
1 At which there's consuming interest (8)
2 Refinements in discriminating neckwear (8)
3 Tout this for full effect (8)
5 Time photo is displayed in a dish (6)
6 Here put everyone partly to account (6)
7 Doing up public school (not new) (6)
8 A splendid assemblage of stars (6)
12 Unlikely story about religious instruction likely to crumble (7)
15 One politician's mischievous child (3)
16 How to grow old? This is one element (3)
18 Player looking to console? (8)
19 One showing withdrawal, reserve, after success? (8)
20 Enlightened but could be dead cute (8)
22 Wood's sound character with last two switched (6)
23 Churchman's mistake at work (6)
24 Trouble – possessed climbing plant (6)
25 Roll up to prepare for work! (6)

Solution 9,097

INTERNATIONAL CAPITAL MARKETS

Optimism on German money supply lifts Europe

By Antonia Sharpe and Richard Lapper in London and Lisa Bransten in New York

Expectations that German money supply data due this week would come in below previous forecasts sent European government bond markets higher. Italy was the star performer, with further evidence of falling inflation and rumours of a credit upgrade helping the 10-year yield spread over bunds fall below the psychologically important level of 300 basis points.

■ In Germany, market forecasts for May money supply data had centred around 10 per cent, but yesterday hopes rose that the figure would be closer to 9.7 per cent.

Mr Graham McDevitt, international bond strategist at Paribas, said the revised expectations had caused the markets to bounce back after selling off for more than a week. "It's time for a correction," he said.

Gains in German bunds came first in the short end, which had weakened severely in the last week, while the long end sought to catch up in a late rally. The recovery in the short end reflected sentiment that fears of a rise in interest rates had been overdone.

"With M3 as low as that, the Bundesbank has scope to cut the repo rate," said Ms Sharda Persaud, European economist at San Paolo Bank in London.

On Liffe, the September bund future rose 0.24 to 94.83 in volume of 130,226 contracts.

■ Italian bonds rose sharply in the afternoon, with further evidence of falling inflation and optimism about the mini-budget due this week buoying sentiment. Rumours of an upgrade in Italy's credit rating also encouraged buying.

"There has been latent bullishness in Italy all week and it finally blossomed this afternoon," said Mr David Brown, chief European economist at Bear Stearns in London.

GOVERNMENT BONDS

Mr Brown pointed to renewed hopes that interest rates, held at 9 per cent for just over a year by the Bank of Italy, could be cut soon.

Yesterday, yields on two-year paper fell by 9 basis points and those on 10-year bonds by 13 basis points. The 10-year yield spread over bunds closed at 297 basis points, down 8 points. On Liffe, the September BTP future settled at 115.74, up 0.93 and the three-month September eurolira contract settled at 91.97, up 0.13.

■ UK gilts were initially disappointed by the May PSBR numbers but recovered as the market decided they were not that bad. However, the data raised expectations that the Treasury would have to revise its PSBR forecast, of £22bn, upwards by about £5bn, bringing it in line with the market's opinion. Mr Don Smith, UK economist at HSBC Markets, said this was likely to happen on July 9, when the Treasury publishes its summer economic forecast.

News that next week's auction would be £3bn of floating-rate notes due 2001 was no surprise. Mr Smith said it was likely to be well-bid as FRNs could be used by banks in their money-market operations instead of Treasury bills.

On Liffe, the September long gilt future rose ¼ to 104⅝ in low volume of 34,687 contracts.

■ Unexpected weakness in the US housing market sent Treasury prices higher in early trading yesterday. The benchmark 30-year Treasury slipped in overnight trading in Asia and Europe but began bouncing off its lows after the Commerce Department said housing starts fell 4.7 per cent in May, wiping out the 4.6 per cent increase seen in April. Economists had expected a 2.6 per cent drop in new home construction.

By midday, the long bond had added ⅛ to 86⅞, yielding 7.050 per cent, while the two-year note was unchanged at 99⅞, yielding 6.240 per cent. The September 30-year Treasury bond future was ⅛ higher at 107⅞.

Economists generally interpreted the data as a sign that rising long-term interest rates were slowing at least some segments of the economy.

"This morning's housing starts report suggests that the spike in interest rates is finally taking its toll on this most interest-rate sensitive sector of the economy," said Ms Marilyn Schaja of Donaldson, Lufkin & Jenrette. "Moreover, a 1.9 per cent decline in permits suggests that upcoming reports will continue to indicate weakness in this sector."

For the second consecutive session, the yield curve between the two and 30-year Treasuries flattened as traders backed away from earlier speculation that the Federal Reserve would raise interest rates next month. The yield curve narrowed by 3 basis points to 81 points.

British Energy pays price of nuclear factor

By Antonia Sharpe

Although the word "nuclear" has been played down in the marketing campaign for British Energy, the nuclear power generator which is about to be privatised, this word, with all its connotations, will loom large in the minds of bankers in their deliberations over whether to participate in a £500m loan for the company.

SYNDICATED LOANS

Five banks – BZW, Dai-Ichi Kangyo Bank, Industrial Bank of Japan, Midland Bank, and Royal Bank of Scotland – have already underwritten the loan, but they are now seeking about seven banks to come in as sub-underwriters.

Bankers involved in the transaction said invitations went out last week to about 12 lenders which have a deep understanding of the nuclear energy sector, notably French, Japanese, German and North American banks.

One banker said that while British Energy was "not an ideal credit" because of the concerns about nuclear energy, he pointed out that the company had an excellent track record on safety. British Energy is expected to focus on this achievement at a presentation to bankers today.

In addition, the pricing on British Energy's facility more than compensates for such concerns, he said.

The facility is divided into two tranches: a five-year £225m amortising term loan with a margin of 35 basis points over London interbank offered rate; and a £275m five-year revolving credit priced at 27½ basis points over Libor.

British Energy is believed to be disappointed to have to pay such a premium over the margins on loans of its direct competitors, such as National Power – which has achieved a margin of 22½ basis points over five years.

However, bankers believe margins for British Energy will come down once it is privatised. Because of its substantial cash flows, the company expects to be debt-free in three years. It also stands a good chance of obtaining a single-A credit rating, which would enable it to refinance in the bond markets.

Sub-underwriting is expected to be completed in three weeks, with each bank taking between £35m and £50m. Bankers said the process should be smooth in view of the relatively modest size of the loan.

Elsewhere, new mandates in the market include a $400m seven-year facility for DSM, the Dutch chemicals company, via Rabobank and Union Bank of Switzerland. The loan, which carries a margin over Libor of 16 basis points for the first five years, rising to 17.5 basis points in the final two years, will be syndicated to DSM's relationship banks.

Friday sees the signing of two debut facilities from emerging-market borrowers, both of which were increased in size because of heavy over-subscription.

One is for Czech Export Bank, which raised $150m compared with an initial target of $100m. The three-year revolving credit, which carries a margin of 12½ basis points over Libor, represents the best terms yet for a Czech Republic borrower.

The other is a two-year term loan for Alpha Credit Bank, Greece's largest private-sector bank, which was increased from $100m to $130m, at a margin of 25 basis points over Libor.

Halifax leads explosion of issuance in sterling sector

By Conner Middelmann

The sterling sector's recent revival culminated in an explosion of issuance activity yesterday, with a total of £950m in new bonds launched.

The Halifax Building Society issued £400m of 10-year subordinated bonds at a spread of 48 basis points over gilts, a level widely deemed to be fair.

"The Halifax is a well-known issuer domestically, but we wanted to get as much international involvement as possible," said an official at CS First Boston, joint leads with BZW, which said that about a quarter of the deal was placed in continental Europe.

Swedish Export Credit launched £200m of five-year bonds at a spread of 5 basis points over gilts. While the spread was thought tight by most dealers – and widened to around 10 basis points after the bonds were freed to trade – lead manager HSBC Markets argued that the paper compares well with outstanding sterling deals for Sweden and Finland, which trade at yields well below gilts.

INTERNATIONAL BONDS

Japan Finance Corporation for Municipal Enterprises issued £150m of 10-year bonds yielding 18 basis points over gilts, which was 2 or 3 basis points too tight by some dealers' estimation. However, lead CS First Boston reported strong demand from Asian investors and continental European accounts.

Meanwhile, France's Caisse Centrale du Crédit Immobilier brought its long-awaited deal, £200m of five-year floating-rate notes.

While some considered the all-in cost of 12.5 basis points over Libor to be on the tight side, lead manager BZW said that there was a shortage of double-A rated floaters in the sterling market and that CCCI had the added advantage of being a new and rare borrower.

In the US dollar sector, the Chicago branch of ABN Amro Bank issued a $750m global issue of 10-year subordinated bonds, some 75 per cent of which were likely to be placed in the US, said a syndicate official at ABN Amro Hoare Govett, joint leads with Salomon Brothers.

Daimler Benz issued $150m of two-year bonds yielding 16 basis points over Treasuries – on the tight side for a borrower rated A1/A+.

However, lead manager Deutsche Morgan Grenfell said that the dearth of corporate paper in that maturity and the issuer's good name-recognition prompted demand from retail investors in Switzerland, the Benelux countries and Germany.

Elsewhere, Pakistan made a $100m issue of floating-rate notes via Citibank, which is due to be priced today, and Rheinhyp, a leading German mortgage bank, issued DM2bn of five-year global Pfandbriefe – bonds backed by loans to the public sector – also to be priced today.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
ABN Amro Bank, Chicago Brch	750	(a)‡	(a)R	Jun 2006	0.40R	(a)(6⅝%-06)	ABN Amro/Salomon Brothers
Bilbao Vizcaya Inv(b)§	250	5.50#	100.00	Jul 2006	2.50	-	SBC Warburg
European Investment Bank(a)	200	6.25	99.81R	Dec 1998	0.15R	-35(6%-98)	Daiwa Europe
Daimler-Benz North America(c)	150	6.50	100.025R	Dec 1998	0.1875R	+16(6%-98)	Deutsche Morgan Grenfell
Islamic Republic of Pakistan(b)‡	100	(b1)	(b)R	Dec 2000	0.40R		Citibank International
D-MARKS							
Rheinische Hypothekenbank(a)	2bn	(c1)	(c1)R	Jul 2001	0.25R	(c1)(5%-01)	Commerzbank/Merrill/UBS
Barclays Bank(d)‡	350	(d1)	100.00	Jul 2006	0.40	-	B de Zoete Wedd(Deutsch)
SOZ‡	300	(e)	99.49	Jun 2001	0.20	-	Lehman Brothers Bankhaus
SWISS FRANCS							
DSL Bank(a)	125	4.50	103.25	Dec 2001	2.00	-	Credit Suisse
STERLING							
Halifax Building Society	400	8.75	99.794R	Jul 2006	0.40R	+48(7½%-06)	BZW/CS First Boston
Swedish Export Credit(a)	200	7.625	99.404R	Dec 2001	0.25R	+5(7%-01)	HSBC Markets
CCCI‡	200	(f)	99.745	Jul 2000	0.15		Barclays de Zoete Wedd
JFME	150	8.375	99.493R	Dec 2006	0.325R	+18(7¾%-06)	CS First Boston
LUXEMBOURG FRANCS							
Generale Inst Finance Lux(g)§	3.35bn	zero	(g)	Dec 1997	2.00	-	Dresdner Bank-KB
BCEE	2bn	(h)	102.00	Jul 2006	2.00	-	SBC
Cregem International Bank(a)	2bn	6.00	102.00	Jun 2002	1.875	-	BIL
Daimler-Benz Canada(i)	2bn	6.125	102.60	Oct 2001	1.75	-	BGL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today 32-40bp over Treasuries. b) Callable and puttable in Dec 1997 and Jun 1999 at par. b1) Priced today at 3-mth Libor +190-200bp to Dec 1997 rising 10bp on each call date. c1) Priced today at 25-27bp over the OBL 118. d) Callable in July 2001 at par. d1) 3-mth Libor +20bp to July 2001 and +70bp thereafter. e) 3-mth Libor flat. f) 3-mth Libor +3½bp. g) Exchangeable into Arbed shares. Priced by Thursday. h) 5¾% to 3/7/00, then 7% to 3/7/03 and 8% thereafter. i) Conversion price: Ptas980. Fx: 128.27Pts/$. Redemption price: 136.648%. Callable from 12/7/01 at accreted value. Greenshoe: 15%. § Long 1st coupon. § Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.0560	-	8.92	9.00	8.92
Austria		6.250	05/06	95.8800	+0.250	6.59	6.54	6.48
Belgium		7.000	05/06	101.0000	+0.110	6.85	6.72	6.73
Canada *		7.000	12/06	93.8000	+0.100	7.87	7.82	7.85
Denmark		8.000	03/06	102.8800	+0.240	7.56	7.48	7.47
France	BTAN	5.750	03/01	100.1260	+0.250	5.72	5.57	5.62
	OAT	7.250	04/06	104.5100	+0.150	6.61	6.51	6.54
Germany Bund		6.250	04/06	97.4500	+0.280	6.61	6.54	6.51
Ireland		8.000	08/06	101.0000	-	7.84	7.76	7.74
Italy		9.500	02/06	100.1900	+0.320	9.47†	9.45	9.67
Japan	No 140	6.600	06/01	118.2085	-0.260	2.31	2.25	2.51
	No 182	3.000	09/05	98.1869	-0.310	3.26	3.24	3.38
Netherlands		6.000	01/06	95.1700	+0.230	6.55	6.40	6.41
Portugal		11.875	02/05	117.6900	+0.540	8.85	8.93	9.18
Spain		8.800	04/06	97.6600	+0.460	9.11	9.11	9.37
Sweden		6.000	02/05	85.4090	+0.060	8.44	8.57	8.56
UK Gilts		8.000	12/00	102-11	+2/32	7.37	7.27	7.49
		7.500	12/06	96-28	+5/32	8.10	8.03	8.14
		9.000	10/08	105-25	-	8.24	8.14	8.24
US Treasury *		6.875	05/06	99-31	+12/32	6.88	6.97	6.77
		6.000	02/26	86-31	+13/32	7.05	7.10	7.00
ECU (French Govt)		7.500	04/05	102.6800	+0.280	7.08	6.98	7.04

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9450	0.45	0.86	1.09	1.05	0.07	0.48	0.71	1.57
9500	0.12	0.56	0.81	0.84	0.24	0.70	0.93	1.86
9550	0.02	0.35	0.58	0.66	0.64	0.97	1.20	2.18

Est. vol. total, Calls 13103 Puts 11050. Previous day's open int., Calls 140544 Puts 170549

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	115.00	115.74	+0.93	115.90	114.58	46108	52301
Dec	114.19	115.04	+0.88	115.00	114.19	52	181

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
11550	1.54	2.06	1.30	2.52
11600	1.28	1.84	1.54	2.80
11650	1.05	1.63	1.81	3.09

Est. vol. total, Calls 2495 Puts 2740. Previous day's open int., Calls 59031 Puts 49487

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.70	98.82	+0.23	98.89	98.53	45,572	25,570
Sep	98.35	98.67	+0.51	98.68	97.94	57,120	48,219

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105-20	105-29	+0-07	105-30	105-20	1447	12469
Sep	104-19	104-26	+0-07	104-28	104-15	41969	118998

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
104	0-57	1-26	1-47	1-58	0-05	0-38	0-59	2-06
105	0-14	0-53	1-11	1-30	0-26	1-01	1-23	2-42
106	0-05	0-28	0-48	1-07	1-17	1-40	1-60	3-19

Est. vol. total, Calls 985 Puts 166. Previous day's open int., Calls 20473 Puts 24094

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	89.53	89.94	+0.26	90.00	90.00	350	6,374

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	107-26	107-29	-	107-30	107-19	20,069	39,495
Sep	107-09	107-12	+0-01	107-15	107-01	211,388	384,785
Dec	106-28	106-25	-0-01	106-28	106-16	2,592	13,702

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	118.72			118.78	118.25	7101	0
Dec	117.77			117.77	117.77	28	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.24
Broker loan rate	7	Two month	-	Three year	6.43
Fed.funds	5⅜	Three month	5.20	Five year	6.66
Fed.funds at intervention	-	Six month	5.45	10-year	6.87
		One year	5.73	30-year	7.04

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	120.74	120.92	+0.18	120.92	120.46	122,913	144,323
Dec	119.50	119.68	+0.18	119.56	119.36	902	15,744
Mar	119.36	119.54	+0.18	119.36	119.36	2	661

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
120	-	-	1.56	0.09	0.38	0.70
121	0.31	0.64	0.95	0.38	0.78	1.08
122	0.04	0.23	0.50	1.13	-	1.61
123	0.01	0.04	0.25	-	-	-
124	-	-	0.09	-	-	-

Est. vol. total, Calls 10,227 Puts 17,298. Previous day's open int., Calls 121,103 Puts 130,867.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.77	94.88	-0.29	94.95	94.47	152634	189521
Dec	93.75	93.98	+0.26	93.75	93.70	11	1541

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Jun 18	Day's change %	Mon Jun 17	Accrued interest	xd adj. ytd		Low coupon yield Jun 18	Jun 17	Yr. ago	Medium coupon yield Jun 18	Jun 17	Yr. ago	High coupon yield Jun 18	Jun 17	Yr. ago
1 Up to 5 years (22)	121.70	0.02	121.77	2.60	4.26	5 yrs	7.50	7.50	7.87	7.54	7.55	7.87	7.64	7.65	7.94
2 5-15 years (18)	144.50	0.17	144.25	2.00	5.84	15 yrs	8.30	8.32	8.14	8.31	8.34	8.17	8.40	8.41	8.29
3 Over 15 years (9)	158.74	0.29	158.29	2.87	5.43	20 yrs	8.39	8.40	8.14	8.38	8.41	8.18	8.45	8.45	8.28
4 Irredeemables (6)	179.00	-0.21	179.37	1.95	6.12	Irred.†	8.45	8.43	8.21						
5 All stocks (58)	140.50	0.14	140.31	2.43	5.13										
Index-linked							Inflation 5% Jun 18	Jun 17	Yr. ago	Inflation 10% Jun 18	Jun 17	Yr. ago			
6 Up to 5 years (1)	197.22	0.06	197.11	1.29	4.43	Up to 5 yrs	2.76	2.78	3.30	1.19	1.20	1.61			
7 Over 5 years (11)	185.76	0.38	185.06	1.57	1.81	Over 5 yrs	3.85	3.86	3.65	3.83	3.86	3.44			
8 All stocks (12)	185.89	0.37	185.20	1.58	1.86										

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 18	Jun 17	Jun 14	Jun 13	Jun 12	Yr ago	High*	Low*
Govt. Secs. (UK)	91.92	92.20	92.04	92.44	92.27	93.20	95.34	91.59
Fixed Interest	111.38	111.40	111.68	111.66	111.58	112.30	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 17	Jun 14	Jun 13	Jun 12	Jun 11
Gilt Edged bargains	55.2	77.3	75.9	77.9	85.2
5-day average	74.3	78.1	81.2	86.7	85.1

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Shorts" (Lives up to Five Years)						
Treas 2pc 1996	0.91	5.72	219⅛	...	219⅛	210⅛
Conversion 10pc 1996	9.83	5.60	101⅞	...	104⅛	101⅞
Treas 13¼pc 1997‡‡	12.70	5.74	104⅜	-⅛	108⅞	104⅛
Exch 10½pc 1997	10.18	5.80	103⅛	...	106⅞	103⅛
Treas Cnv 7pc 1997‡‡	6.92	5.96	101⅛	...	101⅞	98⅞
Treas 8¾pc 1997‡‡	8.49	6.08	103⅛	...	104⅞	101⅞
Exch 15pc 1997	13.46	6.10	111⅞	-⅛	116⅛	111⅞
Exch 9¾pc 1998	9.28	6.36	105⅛	...	107⅛	104⅛
Treas 7¼pc 1998‡‡	7.16	6.48	101¼	...	102⅞	98¼
Treas 6¾pc 1995-98‡‡	6.73	6.54	100⅞	...	101	96⅞
Treas 15½pc '98‡‡	13.10	6.66	118⅜	-⅛	123⅛	117⅞
Exch 12pc 1998	10.79	6.83	111⅛	-⅛	114⅝	110⅛
Treas 9½pc 1999‡‡	8.96	6.89	106	..	108⅛	104
Treas Flg Rate 1999	-	-	99⅞	...	100⅛	99⅞
Exch 12¼pc 1999	10.84	7.00	113	-	116⅞	112⅞
Treas 10½pc 1999	9.63	7.00	109	...	112⅛	107⅛
Treas 6pc 1999 ‡‡	6.18	7.04	97⅛	...	98⅞	92⅛
Conversion 10¼pc 1999	9.40	7.17	109⅛	...	112⅞	107⅛
Conv 9pc 2000‡‡	8.53	7.26	105⅞	...	108⅛	102⅞
Treas 13pc 2000	10.89	7.37	119⅞	...	124⅞	118⅞
Treas 14pc 1998-1	12.38	6.56	113¼	...	117⅛	113⅛
Treas 8pc 2000‡‡	7.82	7.37	102¼	...	105⅞	98¼
Treas 10pc 2001	9.12	7.48	109⅞	...	114	106⅞
Five to Fifteen Years						
Treas 7pc 2001 ‡‡	7.18	7.56	97⅞	...	101⅛	93⅛
Treas 9¾pc 2002	8.88	7.72	109⅞	+⅛	114⅝	106⅞
Treas 8pc 2003‡‡	7.92	7.79	101⅛	+⅛	105⅞	97⅛
Treas 10pc 2003	8.96	7.85	111⅜	+⅛	117⅜	108⅛
Treas 11½pc 2001-4	9.99	7.63	115⅜	+⅛	119⅞	113¼
Funding 3½pc 1999-4	4.39	6.79	79⅞	+⅛	83⅞	70½
Conversion 9½pc 2004	8.72	8.01	108⅞	+¼	114⅛	105⅞
Treas 6¾pc 2004‡‡	7.30	8.00	92⅞	+⅛	96⅞	88¾
Conv 9½pc 2005	8.72	8.06	106⅞	+¼	114⅞	105⅞
Treas 12½pc 2003-5	10.04	7.97	124⅞	+⅛	131⅛	122⅞
Treas 8½pc 2005‡‡	8.26	8.05	102⅞	+¼	108⅞	99⅞
Treas 7½pc 2006‡‡	7.83	8.14	95⅞	+⅛	101⅞	94⅞
Treas 7¾pc 2006‡‡	7.97	8.14	97¼	+⅛	103¼	94⅞
Treas 8pc 2002-6‡‡	8.04	8.10	99⅞	+⅛	104⅞	95⅞
Treas 11¾pc 2003-7	9.85	7.92	119⅜	+⅛	125⅞	117⅛
Treas 8½pc 2007 ‡‡	8.31	8.18	102¼	+⅛	108⅞	99⅝
Treas 13½pc 2004-8	10.27	7.98	131⅞	+⅛	138⅞	129⅝
Treas 9pc 2008 ‡‡	8.49	8.21	105⅞	+⅛	112⅞	103½
Treas 8pc 2009	8.16	8.28	97⅞	...	104½	95¼
Treas 6 1/4pc 2010	7.56	8.32	82⅞	+⅛	88⅞	80⅞
Over Fifteen Years						
Conv 9pc Ln 2011 ‡‡	8.51	8.31	105⅞	+¼	112⅞	103⅞
Treas 9pc 2012‡‡	8.51	8.34	105⅞	+¼	113⅛	104⅛
Treas 5½pc 2008-12‡‡	7.17	8.12	76⅞	...	82¼	73
Treas 8pc 2013‡‡	8.28	8.37	96⅝	+⅛	103⅞	94⅞
Treas 7¾pc 2012-15‡‡	8.24	8.38	94⅛	+⅛	101⅞	92⅞
Treas 8pc 2015	8.29	8.36	96⅞	+⅛	104⅞	95¼
Treas 8¾pc 2017‡‡	8.47	8.40	103⅞	+⅛	111⅝	102⅛
Exch 12pc 2013-17	9.10	8.46	131⅞	+⅛	141⅞	130⅛
Treas 8pc 2021	8.08	8.35	96¼	+⅛	97½	95⅞
Undated						
Consols 4pc	8.52	-	46⅞	+⅛	50⅞	46⅛
War Loan 3½pc‡‡	8.43	-	41⅞	-⅛	45⅞	40⅞
Conv 3½pc '61 Aft	5.94	-	58⅞	...	62¼	57⅞
Treas 3pc '66 Aft	8.57	-	35	...	38⅛	34⅞
Consols 2½pc	8.33	-	30	-⅛	32⅞	29⅛
Treas. 2½pc	8.53	-	29⅛	...	32⅛	28⅞

Index-Linked	Notes	Yield (1)	(2)	Price £	+ or -	52 week High	Low
	(b)						
4⅝pc '98‡‡	(135.6)	1.20	2.77	113⅛	+⅛	113⅞	110⅞
2½pc '01	(78.3)	3.12	3.69	178⅞	+⅛	180⅛	173⅞
2½pc '03	(78.8)	3.34	3.78	174⅛	+⅛	178⅛	169⅞
4⅛pc '04‡‡	(135.6)	3.39	3.78	114⅛	+⅛	118⅞	112⅞
2pc '06	(69.5)	3.49	3.79	181⅞	+¼	185⅞	178⅞
2½pc '09	(78.8)	3.58	3.85	163⅛	+⅛	167⅛	158⅞
2½pc '11	(74.6)	3.62	3.85	168⅞	+⅛	173⅞	165⅛
2½pc '13	(89.2)	3.66	3.86	138⅛	+⅛	143	135⅞
2½pc '16	(81.6)	3.69	3.88	146⅞	+⅛	152¼	144⅞
2½pc '20	(83.0)	3.73	3.88	140⅝	+⅛	146⅞	138⅞
2½pc '24‡‡	(97.7)	3.72	3.86	116⅞	+⅛	122⅞	115⅞
4⅛pc '30‡‡	(135.1)	3.72	3.87	115⅞	+⅛	120⅞	113⅞

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for October 1995: 149.8 and for May 1996: 152.9.

Other Fixed Interest

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Asian Dev 10¼pc 2009	9.09	8.45	112⅞	—	120	111⅞
B'ham 11½pc 2012	9.43	8.83	122	—	128	119⅞
Ireland Cap 8½pc '10	8.04	-	105¼	—	106	102½
9pc Cap 1998	8.65	-	104	—	104¾	104
13pc '97-2	11.72	-	110⅞	—	111⅞	110¼
Hydro Quebec 15pc 2011	10.23	9.25	145¾	—	152⅞	142⅞
Leeds 13½pc 2006	10.33	-	130¾	—	136½	129
Liverpool 3½pc Irred	9.09	-	38½	—	41	33
LCC 3pc '20 Aft	9.09	-	33	—	35	27¾
Manchester 11½pc 2007	9.66	8.83	119	—	124½	117
Met. Wtr. 3pc 'B'	4.03	7.98	74½	—	76	70
N'wide Anglia 3⅞pc 2021	-	4.58	138¼	—	149½	133
4¼pc IL 2024	-	4.58	132¼	—	140⅝	130½
Utd Mex States 16½pc 2008	12.74	-	129½	—	136½	117½

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 18

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	96⅛	96⅜	+⅛	7.23
ABN Amro Bank 7¼ 05	1000	98¾	99	+⅛	7.58
African Dev Bk 7⅝ 23	500	94¼	94¾	+⅛	7.89
Alberta Province 7⅝ 98	1000	102⅛	102⅜	+⅛	6.60
Asian Dev Bank 6¼ 05	750	93¾	94	+⅛	7.31
Austria 8½ 00	400	105¼	105½	+⅛	6.79
Baden-Wuert L-Fin 8⅛ 00	1000	103⅞	104⅛	+⅛	6.86
Bank Ned Gemeenten 7 99	1000	101¼	101½	+⅛	6.54
Bayer Vereinsbk 8⅛ 00	500	103¾	104	+⅛	6.90
Belgium 5½ 03	1000	90¼	90½	+⅛	7.24
British Columbia 7¾ 02	500	103⅛	103⅜	+⅛	7.09
British Gas 0 21	1500	13	13⅛	+⅛	8.37
Canada 6⅜ 05	1500	94½	94⅝	+⅛	7.34
Canada 6½ 97	2000	100⅝	100⅝		6.11
Cheung Kong Fin 5½ 98	500	95⅝	96⅛	+⅛	7.64
China 6½ 04	1000	92½	93⅛	+⅛	7.97
Credit Foncier 9½ 99	300	108½	108⅞	+⅛	6.74
Denmark 5⅞ 98	1000	99⅛	99⅜		6.29
East Japan Railway 6⅝ 04	600	95¾	96	+⅛	7.36
EIB 6 04	500	94	94⅜		7.03
EIB 9¼ 97	1000	104	104¼		6.15
Elec de France 9 98	200	103⅞	104⅛		6.54
Ex-Im Bank Japan 8 02	500	104¼	104½	+⅛	7.09
Export Dev Corp 9½ 98	150	105½	105¾	+⅛	6.56
Exxon Capital 0 04	1800	55⅞	55⅞	+⅛	7.28
Fed Home Loan 7⅛ 99	1500	101½	101¾	+⅛	6.69
Federal Natl Mort 7.40 04	1500	101⅝	101⅞	+⅛	7.26
Finland 6⅜ 97	3000	100¾	101		6.29
Ford Motor Credit 6¼ 98	1500	99⅝	99¾	+⅛	6.59
General Mills 0 13	1000	23	24⅛		8.94
IMI Finance 5¼ 98	850	96⅞	97⅛		6.84
Inter-Amer Dev 6½ 05	1000	92¼	92⅞	+⅛	7.30
Inter-Amer Dev 7½ 05	500	101¼	101½	+⅛	7.30
Intl Finance 5¼ 99	500	97¼	97⅝	+⅛	6.44
Italy 6 03	2000	93¼	93½	+⅛	7.34
Italy 6⅞ 23	3500	87¼	88¼	+⅛	8.14
Japan Dev Bk 8⅜ 01	500	105¼	105½	+⅛	7.00
Korea Elec Power 6⅜ 03	1350	93⅞	93¾	+⅛	7.70
Matsushita Elec 7¼ 02	1000	100⅞	101⅛	+⅛	7.19
Ontario 7⅜ 03	3000	101⅛	101⅜	+⅛	7.26
Oster Kontrollbank 8½ 01	200	105¾	106	+⅛	7.01
Portugal 5¾ 03	1000	92	92¼	+⅛	7.30
Quebec Hydro 9¾ 98	150	105⅞	106⅛	+⅛	6.85
Quebec Prov 9 98	200	103¾	104		6.70
SAS 10 99	200	106⅞	107⅛		7.08
SNCF 9½ 98	150	105½	105⅞		6.58
Spain 6½ 99	1500	99⅝	99⅞	+⅛	6.62
Sweden 6½ 03	2000	97⅛	97⅜	+⅛	7.17
Tennessee Valley 6 00	1000	97⅛	97⅜	+⅛	6.86
Tennessee Valley 6⅜ 05	2000	94⅞	95	+⅛	7.29
Tokyo Elec Power 6⅛ 03	1000	94⅛	94¼	+⅛	7.21
Toyota Motor 5⅝ 98	1500	98⅞	99⅛		6.30
United Kingdom 7¼ 02	3000	101½	101⅝	+⅛	6.94
Walt Disney 6⅜ 01	1300	97⅛	97½	+⅛	7.15
World Bank 6⅜ 05	1500	95¼	95½	+⅛	7.24
World Bank 8⅝ 99	1500	105½	105⅝	+⅛	6.59
Sweden 8 97	2500	105¼	105¼	+⅛	4.08
United Kingdom 7¼ 97	5500	104	104⅛		4.02
Volkswagen Intl Fin 7 03	1000	101⅞	102⅛	+⅛	6.67
World Bank 0 15	2000	29⅞	29⅝	+⅛	6.48
World Bank 5⅞ 03	3000	98¼	98⅝	+⅛	6.17
DEUTSCHE MARK STRAIGHTS					
Austria 6½ 24	2000	88⅞	88⅞	+⅛	7.48
Baden-Wuert L-Finance 6 99	2000	103	103⅛	+⅛	4.86
Credit Foncier 7¼ 03	2000	100½	100¾	+⅛	7.14
Denmark 6⅛ 98	2000	103⅛	103¼	+⅛	4.30
Depfa Finance 6⅞ 03	1500	99	99⅛	+⅛	6.54
Deutsche Bk Fin 7½ 03	2000	104¾	104⅞	+⅛	6.56
EEC 6½ 00	2000	103¾	104	+⅛	5.35
EIB 6¼ 00	1500	103⅛	103¼	+⅛	5.31
Finland 7½ 00	3000	107	107¼	+⅛	5.30
Italy 7¼ 98	5000	104⅝	104⅞	+⅛	4.26
LKB Baden-Wuert 6½ 06	2250	95¾	96	+⅛	7.02
Norway 6⅛ 98	1500	103⅛	103½	+⅛	4.35
Ontario 6¼ 04	1500	97½	97¾	+⅛	6.67
Spain 7¼ 03	4000	104⅝	104⅞	+⅛	6.37
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	33¾	34		5.69
Austria 4½ 00	1000	102⅞	103⅛	-⅛	3.64
Council Europe 4¾ 98	250	102¼	102½		3.33
Denmark 4¼ 99	1000	102¼	102½		3.51
EIB 3¾ 99	1000	101¼	101⅝		3.24
EIB 6¾ 04	300	110⅞	111	+⅛	5.12
Finland 7¼ 99	300	109⅞	110	+⅛	4.03
Iceland 7⅞ 00	100	112½			4.25
Inter Amer Dev 4¼ 03	600	101¼	101½		4.54
Ontario 6¼ 03	400	108⅝	109¼	+⅛	4.70
Quebec Hydro 5 08	100	99	100		5.11
SNCF 7 04	450	114	114¼	+½	4.90
Sweden 4¼ 03	500	101¼	102		4.46
World Bank 0 21	700	25	25¼		5.60
World Bank 7 01	600	112	112½		4.14
YEN STRAIGHTS					
Belgium 5 99	75000	109¾	110	-⅛	2.08
Credit Foncier 4¾ 02	75000	108¼	108½	+⅛	3.60
EIB 6⅝ 00	100000	115⅞	116⅛	-⅛	2.18
Ex-Im Bank Japan 4⅜ 03	105000	108⅛	108⅜	-⅛	3.11
Inter Amer Dev 7¼ 00	30000	118¾	119	-⅛	2.19
Italy 3½ 01	300000	103¼	103⅞	-⅛	2.71
Italy 5 04	200000	111⅞	112⅛	-⅛	3.37
Japan Dev Bk 5 99	100000	109⅝	109⅞	-⅛	1.94
Japan Dev Bk 6½ 01	120000	119⅜	119⅝	-⅛	2.52
SNCF 6¾ 00	30000	116⅜	116⅝	-⅛	2.17
Spain 5¾ 02	125000	115½	115¾	-½	2.80
Sweden 4⅝ 98	150000	105¼	105⅜	-⅛	1.34
World Bank 5¼ 02	250000	113¾	113⅞	-½	2.67
OTHER STRAIGHTS					
Bayerische LB Giro 8⅛ 04 LFr	3000	108⅝	109⅜		6.75
IKB Deut Industrie 8½ 03 LFr	3000				
Tractebel Invest 6⅞ 04 LFr	1500	100¾	101¼		6.74
ABN Amro 6⅝ 00 Fl	1000	104⅝	105		5.24
Austria 6½ 99 Fl	1000	104⅛	104⅜		4.93
Bell Canada 10⅝ 99 C$	150	109¼	109¾	-⅛	7.16
British Columbia 7¾ 03 C$	1250	100¼	100½	-⅛	7.95
Canada Mtg & Hsg 8¼ 99 C$	1000	103⅞	104⅛	-⅛	6.97
EIB 10⅛ 98 C$	130	108⅛	108½		6.24
Elec de France 9¾ 99 C$	275	107½	108	+⅛	7.05
KfW Int Fin 10 01 C$	400	109½	110	-⅛	7.31
Nippon Tel Tel 10¼ 99 C$	200	109	109⅛		7.10
Ontario 8 03 C$	1500	101⅞	101⅝	-⅛	7.87
Ontario Hydro 10⅞ 99 C$	500	109⅞	110⅛		6.83
Oster Kontrollbank 10¼ 99 C$	150	108⅞	109¼		6.96
Quebec Hydro 7 04 C$	1000	93½	93¾	-⅛	8.29
Quebec Prov 10½ 98 C$	200	107⅞	108¼	-⅛	6.86
Council Europe 9 01 Ecu	1100	110⅞	111	+⅛	6.56
Credit Foncier 8⅞ 04 Ecu	1000	102½	103	-⅛	7.92
Denmark 8½ 02 Ecu	1000	108⅛	108⅜	+⅛	6.58
EC 6 00 Ecu	1100	100½	100⅞		5.86
EIB 10 01 Ecu	1150	114¼	114½	+⅛	6.32
Ferro del Stat 10⅛ 98 Ecu	500	107⅛	107½	+⅛	5.20
Italy 10¾ 00 Ecu	1000	114⅞	115¼	+⅛	6.25
United Kingdom 9⅛ 01 Ecu	2750	111⅛	111¼	+⅛	6.29
AIDC 10 99 A$	100	103¼	103¼		8.72
Comm Bk Australia 13¾ 99 A$	100	113¼	113⅝	-⅛	8.85
EIB 7¾ 99 A$	350	99½	100	+⅛	8.09
NSW Treasury Zero 0 20 A$	1000	11¼	11¾		9.35
R & I Bank 7¾ 03 A$	125	93⅛	93⅝	-⅛	9.12
State Bk NSW 9 02 A$	300	100⅝	100⅞		8.85
Sth Aust Govt Fin 9 02 A$	150	100⅛	100¾	+⅛	8.90
Unilever Australia 12 98 A$	150	105½	105⅞	-⅛	8.61
Western Aust Treas 7⅝ 98 A$	100	98¾	99¼		8.94
Abbey Natl Treasury 8 03 £	1000	99⅛	99⅜	+⅛	8.16
British Land 8⅞ 23 £	150	89⅛	89⅝	+⅛	10.30
Denmark 6¾ 98 £	800	99⅞	100⅛	+⅛	6.80
Depfa Finance 7⅞ 03 £	500	94	94⅛	+⅛	8.23
EIB 8 03 £	1000	100⅛	100⅜		7.98
Glaxo Wellcome 8¾ 05 £	500	100⅝	100⅞	+⅛	8.64
Hanson 10⅜ 97 £	500	104⅞	104⅝		6.79
HSBC Holdings 11.69 02 £	153	114¾	115⅛	+⅛	8.48
Italy 10½ 14 £	400	111⅜	111⅝	+⅛	9.18
Japan Dev Bk 7 00 £	200	98⅜	98⅝		7.44
Land Secs 9½ 07 £	200	103¾	104⅛	+⅛	8.94
Ontario 11⅛ 01 £	100	112	112⅜		7.92
Powergen 8⅞ 03 £	250	102⅝	102⅞	+⅛	8.34
Severn Trent 11½ 99 £	150	110½	110⅞		7.53
Tokyo Elec Power 11 01 £	150	112	112⅜		7.98
TCNZ Fin 9¼ 02 NZ$	75	99	100		9.47
World Bank 12½ 97 NZ$	250	103⅛	103⅝		9.65
Credit Local 6 01 FFr	7000	100	100⅛	+⅛	5.98
Denmark 5½ 98 FFr	7000	100½	100⅝		5.32
Elec de France 8¾ 22 FFr	3000	114⅛	114⅜	+⅛	7.46

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
Abbey Natl Treasury -1/16 99	1000	99.86	99.93	5.4766
Bankamerica ⅛ 99	750	99.92	100.03	5.7383
Canada -⅛ 99	2000	99.81	99.88	5.2500
CCCE 0 06 Ecu	200	99.52	99.67	4.2575
Commerzbk O/S Fin -⅛ 98	750	99.73	99.81	5.3555
Credit Lyonnais 1/16 00	300	98.18	98.59	5.5000
Credit Lyonnais 0.30 98	1250	100.00	100.10	5.7188
Denmark -⅛ 97	1000	99.95	100.01	5.4141
Dresdner Finance 1/16 98 DM	1000	100.00	100.08	3.2812
Fed Nat Mort -1/16 00	1000	99.62	99.76	5.6977
Finland 0 97	1000	100.06	100.12	5.4492
Finland -⅛ 99	1500	99.91	99.97	5.3750
Halifax BS 0 99	500	100.07	100.15	5.5391
IMI Bank Intl ¼ 99	500	100.35	100.45	5.7305
Italy 1/16 99	1500	100.16	100.22	5.5430
LKB Baden-Wuert Fin -⅛ 98	1000	99.93	100.00	5.4766
Lloyds Bank Perp S 0.10	600	85.08	85.86	5.5800
Malaysia 1/16 05	650	99.76	99.81	5.5625
New Zealand -⅛ 99	1000	99.90	100.00	5.3359
Nova Scotia 1/16 99	500	99.96	100.05	5.5625
Ontario 0 99	2000	99.98	100.05	5.4805
Portugal 1/16 99 DM	2500	100.21	100.28	3.4102
Quebec Hydro 0 99	500	99.60	99.72	5.5352
Renfe 0 98	500	99.78	99.90	5.4375
State Bk Victoria 0.05 99	125	99.95	100.10	5.6522
Sweden -⅛ 01	2000	99.86	99.93	5.3750

CONVERTIBLE BONDS

	Issued	Conv. Price	Bid	Offer	Prem.
Allied-Lyons 6¾ 08 £	200	6.04	99⅛	99⅞	+26.10
EE Finance 8¾ 08 £	438	6.4	100	100⅞	+32.13
Gold Kalgoorlie 7½ 00	65	1.37	120½	122½	+14.74
Grand Metropolitan 6½ 00	710	4.37	108⅛	109¼	+14.70
Hanson America 2.39 01	420	29.6375	85⅛	86	+78.14
Hong Kong Land 4 01	410	31.05	84	84⅞	-15.87
Land Secs 6¾ 02 £	84	6.72	99	100	+4.70
Lasmo 7¾ 05 £	90	5.64	90⅞	91⅞	
Mitsui Bank 2⅝ 03	200	2332.6	91	92⅞	+29.54
Natl Power 6¼ 08 £	250	4.33	118½	120	-2.27
Ogden 6 02	85	39.077	90½	92	+63.71
Pennzoil 4¾ 03	500	56.8097	107⅝	108⅝	-6.49
Sappi BVI Finance 7½ 02	250	76	92¼	93¼	+78.15
1 3/8 00 JPY 40bil 1⅞ 00	40000	1059.4	103⅛	104⅛	-6.30
Sumitomo Bank 3¾ 04	300	3606.8	83⅞	84⅞	+24.75
Sun Alliance 7¼ 08 £	155	3.9	108	109	+8.28
Transatlantic Hldgs 5½ 09 £	250	5.05	86	87	+12.90

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

CURRENCIES AND MONEY

MARKETS REPORT

Dollar falls as Japanese growth scares market

By Philip Gawith

The dollar yesterday fell quite sharply after the release of much stronger than expected Japanese first quarter GDP figures unnerved markets.

The dollar fell on expectations that Japanese interest rates will have to rise following the three per cent real growth seen in first quarter GDP, the fastest such growth in 23 years.

It closed in London at Y107.975, from Y108.845. Against the D-Mark it finished at DM1.5148, from DM1.5177.

The D-Mark was slightly firmer in Europe, closing at FFr3.397 against the French franc, from FFr3.393. The Swedish krona slipped slightly to SKr4.380, from SKr4.388, after the Riksbank cut the repo rate to 6.1 per cent from 6.3 per cent. This brought the cumulative cut in the repo rate this year to 280 basis points.

Sterling slipped slightly against the D-Mark to finish at DM2.3384, from DM2.3448. Against the dollar it closed at $1.5438, from $1.5455. The trade weighted index finished at 85.6 from 85.8.

A one-off trade which attracted some attention was the sale by Volvo of part of its stake in Pharmacia and Upjohn, the US pharmaceuticals companies. Analysts said this lay behind the sharp rally in the Swedish krona which finished at SKr6.6319, from SKr6.662, against the dollar.

■ The dollar has had a nervous feel about it in recent days, and the strong Japanese figures yesterday provided sufficient excuse to sell it.

Mr Chris Furness, analyst at the financial consultancy 4CAST in London, said he expected that the Bank of Japan would be more likely to allow the overnight rate to rise rather than the official discount rate. He said the psychologically important event would be when the overnight rate, currently around 0.47 per cent, rose above the ODR, which is ½ per cent.

The dollar also traded in wider ranges than recently against the D-Mark. Mr Peter Farley, currency analyst at MMS in London, said: "Given the fine balance in policy decisions between the US, Japan and Germany, more of this nervous trading is likely to become a hallmark of the major crosses in the weeks ahead."

He predicted, though, that there would be support for the dollar so long as the prospect of higher US interest rates existed.

There was unsubstantiated talk that the Bank of Japan had been supporting the dollar, with traders mindful of the aggressive manner in which it defended Y105 in January.

From an economic standpoint, it is not clear that stronger economic growth should necessarily favour a stronger yen. Mr Mike Rosenberg, head of fixed income and currency research at Merrill Lynch in New York, said that a rebound in the Japanese economy should be broadly neutral for the yen. "On the one hand we felt that it could be yen-negative if it gave rise to a pickup in import-demand growth and, in turn, to a narrower Japanese current-account surplus.

"On the other hand, we felt that stronger Japanese economic growth could be yen positive if it encouraged a rise in Japanese interest rates and, therefore, to a rise in Japanese capital inflows."

Mr Rosenberg pointed out that for much of this year the dollar/yen rate had been highly correlated with the trend in the euroyen futures contract, which serves as a proxy for interest rate expectations. Although the longer term forecast is for stronger growth, Mr Rosenberg said he did not expect a sustained break above Y110. "While a short-run overshoot is always possible, the yen's centre of gravity should remain at Y100-110 for many months to come."

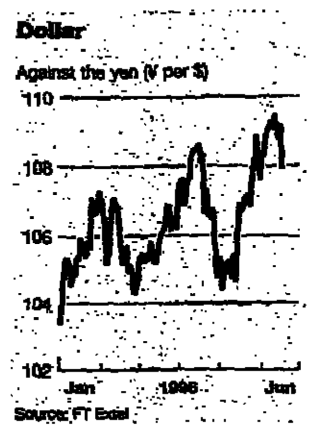
■ The Bank of England announced changes to its daily money market operations. From today it will be willing to take floating rate gilts in any repo it offers in its daily operations.

Mr Philip Shaw, economist at Union Discount, said the effect of this was to reduce the reliance on commercial bills which the Bank buys to relieve the shortages. "Today's change increases significantly the range of paper against which assistance can be obtained. This should help to stabilise the short end of the yield curve," he said.

Mr Shaw said the move could also be regarded as "a step towards the greater reliance on gilt repo in the Bank's open market operations."

Dollar

Against the yen (Y per $)



Source: FT Extel

■ Pound in New York

Jun 18	— Latest —	— Prev. close —
£ spot	1.5435	1.5430
1 mth	1.5436	1.5425
3 mth	1.5433	1.5420
1 yr	1.5432	1.5429

■ OTHER CURRENCIES

Jun 18	£	$
Czech Rp	42.8275 - 42.8722	27.7470 - 27.7670
Hungary	230.908 - 231.060	149.600 - 149.650
Iran	4632.00 - 4630.50	3000.00 - 3000.00
Kuwait	0.4621 - 0.4630	0.2994 - 0.2999
Poland	4.1759 - 4.1850	2.7055 - 2.7105
Russia	7777.70 - 7783.30	5039.00 - 5041.00
U.A.E.	5.6681 - 5.6713	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.4581	-0.0464	511 - 651	16.5336	16.4275	16.4289	2.8	16.3519	2.6	-	-	105.0
Belgium	(BFr)	48.1342	-0.1193	955 - 728	48.3320	48.0400	48.0392	2.6	47.8192	2.6	46.9192	2.7	106.8
Denmark	(DKr)	9.0132	-0.0238	084 - 170	9.0402	9.0011	8.9986	1.9	8.9698	1.9	8.8478	1.8	107.6
Finland	(FM)	7.1531	-0.0428	461 - 600	7.2000	7.1430	7.1467	0.7	7.1406	0.7	-	-	83.7
France	(FFr)	7.9422	-0.0133	401 - 442	7.9665	7.9269	7.9293	1.9	7.9045	1.9	7.7918	1.9	109.0
Germany	(DM)	2.3384	-0.0039	372 - 393	2.3510	2.3342	2.3337	2.4	2.3226	2.7	2.2772	2.6	108.6
Greece	(Dr)	370.793	-1.203	655 - 931	372.712	370.287	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9720	+0.0002	713 - 728	0.9733	0.9706	0.9715	0.6	0.9703	0.7	0.9658	0.6	89.2
Italy	(L)	2372.05	-8.01	051 - 359	2383.84	2370.04	2378.6	-3.3	2389.75	-3.0	2423	-2.1	78.4
Luxembourg	(LFr)	48.1342	-0.1193	955 - 728	48.3320	48.0400	48.0392	2.6	47.8192	2.6	47.4192	1.5	105.8
Netherlands	(Fl)	2.6206	-0.0040	196 - 220	2.6357	2.6158	2.6143	3.0	2.6009	3.0	2.5445	2.9	106.9
Norway	(NKr)	10.0499	-0.0179	425 - 573	10.1020	10.0300	10.0414	1.0	10.0244	1.0	9.9409	1.1	98.3
Portugal	(Es)	240.879	-0.89	601 - 957	242.050	240.429	241.304	-2.1	242.209	-2.2	-	-	94.8
Spain	(Pta)	197.831	-0.524	597 - 740	198.395	197.417	197.891	-1.8	198.406	-1.6	199.806	-1.1	80.3
Sweden	(SKr)	10.2380	-0.0564	266 - 474	10.3129	10.2225	10.2383	0.0	10.2384	0.0	10.2393	0.0	90.0
Switzerland	(SFr)	1.9269	-0.0043	261 - 277	1.9331	1.9231	1.9219	3.1	1.9111	3.3	1.8629	3.3	110.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.6
Ecu	-	1.2385	-0.0026	379 - 390	1.2418	1.2362	1.2372	1.3	1.2342	1.4	1.2208	1.4	-
SDR†	-	1.08877	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5416	-0.0015	412 - 420	1.5496	1.5410	-	-	-	-	-	-	-
Brazil	(R$)	1.5459	-0.0012	452 - 465	1.5510	1.5441	-	-	-	-	-	-	-
Canada	(C$)	2.1115	-	107 - 122	2.1168	2.1059	2.1106	0.4	2.1071	0.8	2.0981	0.6	84.2
Mexico	(New Peso)	11.6606	-0.0576	550 - 661	11.7406	11.6547	-	-	-	-	-	-	-
USA	($)	1.5438	-0.0015	435 - 440	1.5495	1.5422	1.5433	0.4	1.5429	0.2	1.5441	0.0	96.7
Pacific/Middle East/Africa													
Australia	(A$)	1.9570	+0.0053	560 - 579	1.9594	1.9486	1.9646	-1.6	1.9760	-1.5	1.9939	-1.7	93.0
Hong Kong	(HK$)	11.9502	-0.0131	475 - 529	11.9938	11.9382	11.9421	0.8	11.9305	0.7	11.9107	0.3	-
India	(Rs)	53.9541	+0.0248	366 - 716	54.3590	53.6350	-	-	-	-	-	-	-
Israel	(Shk)	5.0395	+0.0022	344 - 446	5.0665	5.0332	-	-	-	-	-	-	-
Japan	(Y)	166.687	-1.506	580 - 793	168.470	166.160	165.982	5.2	164.472	5.3	158.057	5.2	135.3
Malaysia	(M$)	3.8524	-0.0033	510 - 538	3.8654	3.8478	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2856	-0.0032	840 - 871	2.2971	2.2813	2.2899	-2.6	2.3001	-2.5	2.3339	-2.1	106.0
Philippines	(Peso)	40.4463	-0.0181	321 - 605	40.5300	40.3594	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7897	-0.0056	884 - 909	5.8112	5.7842	-	-	-	-	-	-	-
Singapore	(S$)	2.1747	-0.0015	736 - 758	2.1812	2.1720	-	-	-	-	-	-	-
South Africa	(R)	6.7003	-0.0218	926 - 079	6.7186	6.6922	-	-	-	-	-	-	-
South Korea	(Won)	1232.38	-1.97	202 - 273	1236.81	1231.29	-	-	-	-	-	-	-
Taiwan	(T$)	42.6739	-0.0708	593 - 885	42.8251	42.6387	-	-	-	-	-	-	-
Thailand	(Bt)	39.0708	-0.089	567 - 848	39.2260	39.0490	-	-	-	-	-	-	-

†Rates for Jun 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.6611	-0.0187	583 - 639	10.7185	10.6270	10.6416	2.2	10.5996	2.3	10.4161	2.3	104.6
Belgium	(BFr)	31.1800	-0.047	600 - 000	31.3020	31.0780	31.125	2.1	31.01	2.2	30.47	2.3	106.4
Denmark	(DKr)	5.8385	-0.0131	370 - 400	5.8686	5.8217	5.831	1.5	5.814	1.7	5.745	1.6	105.8
Finland	(FM)	4.6336	-0.0232	298 - 373	4.6718	4.6254	4.6271	1.7	4.6151	1.6	4.5696	1.4	82.8
France	(FFr)	5.1447	-0.0037	442 - 452	5.1640	5.1311	5.1378	1.6	5.1235	1.8	5.0557	1.7	108.5
Germany	(DM)	1.5148	-0.0029	144 - 151	1.5230	1.5105	1.5123	2.0	1.5065	2.2	1.4783	2.4	107.9
Greece	(Dr)	240.180	-0.545	140 - 240	241.550	239.690	241.865	-8.4	245.215	-8.4	259.19	-7.9	66.8
Ireland	(I£)	1.5883	-0.0021	875 - 891	1.5963	1.5859	1.5889	-0.4	1.5897	-0.4	1.5813	0.4	-
Italy	(L)	1536.55	-2.4	580 - 730	1544.94	1532.50	1541.3	-3.7	1549.45	-3.4	1572.2	-2.3	75.9
Luxembourg	(LFr)	31.1800	-0.047	600 - 000	31.3020	31.0780	31.127	2.0	31.0205	2.0	30.54	2.1	106.4
Netherlands	(Fl)	1.6977	-0.0022	972 - 982	1.7043	1.6923	1.6944	2.4	1.6872	2.5	1.6555	2.5	106.4
Norway	(NKr)	6.5101	-0.0052	063 - 138	6.5363	6.4759	6.5072	0.5	6.5016	0.5	6.4651	0.7	97.6
Portugal	(Es)	156.035	-0.295	010 - 060	156.870	155.620	156.35	-2.4	156.94	-2.3	159.085	-2.0	94.8
Spain	(Pta)	128.020	-0.215	970 - 070	128.570	127.770	128.27	-2.3	128.7	-2.1	130.24	-1.7	80.0
Sweden	(SKr)	6.6319	-0.0301	269 - 369	6.6837	6.6165	6.6429	-2.0	6.6604	-1.7	6.7024	-1.1	89.4
Switzerland	(SFr)	1.2482	-0.0016	479 - 485	1.2532	1.2438	1.2447	3.4	1.2372	3.5	1.2037	3.6	110.4
UK	(£)	1.5438	-0.0015	435 - 440	1.5495	1.5422	1.5433	0.4	1.5429	0.2	1.5441	0.0	85.4
Ecu	-	1.2466	+0.0013	462 - 469	1.2488	1.2426	1.2473	-0.7	1.249	-0.8	1.2578	-0.9	-
SDR†	-	0.69185	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9986	-	985 - 987	1.0001	0.9885	-	-	-	-	-	-	-
Brazil	(R$)	1.0014	+0.0002	011 - 015	1.0016	1.0010	-	-	-	-	-	-	-
Canada	(C$)	1.3678	+0.0013	675 - 680	1.3689	1.3650	1.3676	0.1	1.3679	0.0	1.3707	-0.2	83.6
Mexico	(New Peso)	7.5535	-0.03	510 - 560	7.5600	7.5500	7.715	-25.7	7.9	-18.3	9.6635	-27.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.8
Pacific/Middle East/Africa													
Australia	(A$)	1.2676	+0.0047	673 - 681	1.2682	1.2631	1.2698	-1.9	1.2731	-1.7	1.2918	-1.9	95.0
Hong Kong	(HK$)	7.7410	-0.001	405 - 415	7.7433	7.7403	7.7417	-0.1	7.7435	-0.1	7.7705	-0.4	-
India	(Rs)	34.9500	+0.05	500 - 500	35.1500	34.7500	35.1	-5.2	35.405	-5.2	36.875	-5.5	-
Israel	(Shk)	3.2645	+0.0046	617 - 672	3.2740	3.2551	-	-	-	-	-	-	-
Japan	(Y)	107.975	-0.87	930 - 020	109.110	107.690	107.53	4.9	106.69	5.0	102.89	4.7	134.7
Malaysia	(M$)	2.4955	+0.0003	950 - 960	2.4960	2.4940	2.4964	-0.4	2.5025	-1.1	2.526	-1.2	-
New Zealand	(NZ$)	1.4804	-0.0006	797 - 813	1.4815	1.4780	1.4835	-2.5	1.4893	-2.4	1.5139	-2.3	-
Philippines	(Peso)	26.2000	+0.015	500 - 600	26.2500	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 506	3.7506	3.7500	3.7508	-0.1	3.7515	-0.1	3.7549	-0.1	-
Singapore	(S$)	1.4087	+0.0004	082 - 092	1.4095	1.4081	1.4052	3.0	1.3992	2.7	1.3737	2.5	-
South Africa	(R)	4.3403	-0.0097	360 - 445	4.3500	4.3275	4.3878	-13.1	4.4778	-12.7	4.8153	-10.9	-
South Korea	(Won)	798.300	-0.5	200 - 400	799.700	798.100	-	-	-	-	-	-	-
Taiwan	(T$)	27.6430	-0.019	380 - 480	27.6570	27.6320	27.648	-0.2	27.653	-0.1	-	-	-
Thailand	(Bt)	25.3090	-0.033	040 - 140	25.3500	25.3020	25.4078	-4.7	25.6115	-4.8	26.494	-4.7	-

† SDR rate per $ for Jun 17 Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 17: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3½	3[illegible]	7.00	2.50	-
week ago	3¼	3¼	3¼	3¼	3[illegible]	7.00	2.50	-
France	3[illegible]	3¾	3[illegible]	4[illegible]	4[illegible]	3.60	-	5.60
week ago	3[illegible]	3¾	3[illegible]	4	4[illegible]	3.60	-	5.60
Germany	3¼	3½	3½	3[illegible]	3[illegible]	4.50	2.50	3.30
week ago	3[illegible]	3½	3½	3[illegible]	3½	4.50	2.50	3.30
Ireland	5[illegible]	5[illegible]	5[illegible]	5[illegible]	5¾	-	-	6.25
week ago	5[illegible]	5[illegible]	5¼	5¾	5¾	-	-	6.25
Italy	9[illegible]	8¾	8¾	8[illegible]	8¾	-	9.00	9.30
week ago	9[illegible]	8¾	8¾	8[illegible]	8[illegible]	-	9.00	9.30
Netherlands	2¾	2¾	2[illegible]	3	3[illegible]	-	3.00	3.30
week ago	2¾	2¾	2[illegible]	2¾	3[illegible]	-	3.00	3.30
Switzerland	2	2[illegible]	2[illegible]	2[illegible]	2[illegible]	5.00	1.50	-
week ago	2½	2[illegible]	2[illegible]	2[illegible]	2[illegible]	5.00	1.50	-
US	5¼	5[illegible]	5[illegible]	5[illegible]	6[illegible]	-	5.00	-
week ago	5¼	5[illegible]	5[illegible]	5¾	6[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5[illegible]	5[illegible]	5¾	6[illegible]	-	-	-
week ago	-	5[illegible]	5[illegible]	5[illegible]	6[illegible]	-	-	-
US Dollar CDs	-	5.00	5.21	5.42	5.80	-	-	-
week ago	-	5.00	5.17	5.42	5.87	-	-	-
ECU Linked Ds	-	4[illegible]	4[illegible]	4[illegible]	4[illegible]	-	-	-
week ago	-	4[illegible]	4[illegible]	4[illegible]	4[illegible]	-	-	-
SDR Linked Ds	-	3[illegible]	3¾	3[illegible]	3[illegible]	-	-	-
week ago	-	3[illegible]	3¾	3[illegible]	3[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3[illegible] - 3⅜	[illegible]	[illegible]
Danish Krone	4⅛ - 3⅞	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	4[illegible] - 3[illegible]	[illegible]	[illegible]
D-Mark	3⅜ - 3¼	3⅜ - 3¼	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	[illegible]	[illegible]
Dutch Guilder	2[illegible] - 2[illegible]	2[illegible] - 2[illegible]	2⅞ - 2[illegible]	2[illegible] - 2⅞	[illegible]	[illegible]
French Franc	3[illegible] - 3[illegible]	3⅞ - 3¾	3[illegible] - 3[illegible]	3[illegible] - 3[illegible]	[illegible]	[illegible]
Portuguese Esc.	7½ - 7[illegible]	7[illegible] - 7½	7⅜ - 7¼	7[illegible] - 7⅛	[illegible]	[illegible]
Spanish Peseta	7[illegible] - 7[illegible]	7⅜ - 7¼	7[illegible] - 7[illegible]	7[illegible] - 7[illegible]	[illegible]	[illegible]
Sterling	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	[illegible]	[illegible]
Swiss Franc	1[illegible] - 1[illegible]	2⅛ - 2	2½ - 2⅜	2⅝ - 2½	[illegible]	[illegible]
Can. Dollar	4[illegible] - 4½	4¾ - 4[illegible]	4[illegible] - 4[illegible]	4⅞ - 4¾	[illegible]	[illegible]
US Dollar	5⅜ - 5¼	5[illegible] - 5[illegible]	5[illegible] - 5¼	5[illegible] - 5⅞	[illegible]	[illegible]
Italian Lira	9[illegible] - 9¼	9⅛ - 9[illegible]	8⅞ - 8¾	8⅝ - 8½	[illegible]	[illegible]
Yen	[illegible] - [illegible]	½ - ⅜	½ - ⅜	[illegible] - [illegible]	[illegible]	[illegible]
Asian $Sing	2¾ - 2⅝	2¾ - 2⅝	2[illegible] - 2[illegible]	2[illegible] - 2[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.64	95.71	+0.04	95.72	95.56	52,537	60,661
Dec	95.48	95.55	+0.05	95.58	95.39	14,857	34,777
Mar	95.28	95.35	+0.05	95.36	95.22	4,902	24,958

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.48	96.55	+0.08	96.56	96.45	53207	212179
Dec	96.20	96.30	+0.11	96.32	96.18	65617	208768
Mar	95.84	95.98	+0.14	95.99	95.80	55786	185058
Jun	95.45	95.60	+0.16	95.63	95.40	27843	106950

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.84	91.99	+0.15	92.02	91.83	22299	56708
Dec	92.09	92.22	+0.13	92.25	92.07	11714	31672
Mar	92.14	92.24	+0.10	92.25	92.14	6806	14119
Jun	92.10	92.15	+0.09	92.18	92.09	2763	7411

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	97.30	97.36	+0.06	97.37	97.30	5198	39674
Dec	97.10	97.15	+0.06	97.17	97.10	1350	16864
Mar	96.81	96.86	+0.07	96.86	96.80	1172	7690
Jun	96.52	96.56	+0.04	96.56	96.52	370	0

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.14	99.13	-0.07	99.14	99.13	165	n/a
Dec	98.76	98.77	-0.11	98.77	98.75	1784	n/a
Mar	98.45	98.43	-0.13	98.45	98.43	210	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.43	95.52	+0.07	95.53	95.43	1876	6764
Dec	95.25	95.35	+0.08	95.33	95.25	514	3940
Mar	95.03	95.14	+0.07	95.16	95.03	652	2737
Jun	94.69	94.83	+0.12	94.84	94.69	425	2326

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.73	16.50	4.858	2.020	4928	5.446	20.88	500.5	410.8	21.28	4.004	2.078	4.388	3.208	346.4	2.574
Denmark	(DKr)	53.40	10	8.812	2.594	1.078	2632	2.908	11.15	267.3	219.2	11.36	2.138	1.110	2.343	1.713	185.0	1.375
France	(FFr)	60.60	11.35	10	2.944	1.224	2987	3.300	12.65	303.3	248.8	12.89	2.426	1.259	2.659	1.944	209.9	1.560
Germany	(DM)	20.59	3.855	3.397	1	0.416	1015	1.121	4.299	103.0	84.52	4.380	0.824	0.428	0.903	0.660	71.30	0.530
Ireland	(I£)	49.52	9.273	8.171	2.405	1	2440	2.697	10.34	247.8	203.3	10.53	1.983	1.029	2.173	1.588	171.5	1.275
Italy	(L)	2.029	0.380	0.335	0.099	0.041	100.	0.110	0.424	10.16	8.331	0.432	0.081	0.042	0.089	0.065	7.028	0.052
Netherlands	(Fl)	18.36	3.439	3.030	0.892	0.371	905.0	1	3.834	91.91	75.39	3.907	0.735	0.382	0.806	0.589	63.60	0.473
Norway	(NKr)	47.89	8.968	7.902	2.326	0.967	2360	2.608	10	239.7	196.6	10.19	1.917	0.995	2.101	1.536	165.9	1.233
Portugal	(Es)	19.98	3.741	3.297	0.971	0.403	984.6	1.088	4.172	100.	82.03	4.251	0.800	0.415	0.877	0.641	69.20	0.514
Spain	(Pta)	24.36	4.561	4.019	1.183	0.492	1200	1.326	5.086	121.9	100.	5.182	0.975	0.506	1.069	0.781	84.36	0.627
Sweden	(SKr)	47.00	8.802	7.756	2.283	0.949	2316	2.560	9.814	235.3	193.0	10	1.882	0.977	2.063	1.508	162.8	1.210
Switzerland	(SFr)	24.98	4.677	4.121	1.213	0.504	1231	1.360	5.215	125.0	102.5	5.314	1	0.519	1.096	0.801	86.51	0.643
UK	(£)	48.13	9.013	7.942	2.338	0.972	2372	2.621	10.05	240.9	197.6	10.24	1.927	1	2.112	1.544	166.7	1.239
Canada	(C$)	22.79	4.268	3.760	1.107	0.460	1123	1.241	4.759	114.1	93.56	4.848	0.912	0.473	1	0.731	78.93	0.587
US	($)	31.17	5.837	5.144	1.514	0.630	1536	1.698	6.509	156.0	128.0	6.632	1.248	0.648	1.368	1	108.0	0.802
Japan	(Y)	28.87	5.407	4.764	1.403	0.583	1423	1.572	6.029	144.5	118.5	6.143	1.156	0.600	1.267	0.926	100.	0.743
Ecu		38.85	7.274	6.410	1.887	0.785	1914	2.115	8.111	194.4	159.5	8.265	1.555	0.807	1.705	1.246	134.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6609	0.6648	+0.0038	0.6655	0.6605	22,452	54,006
Dec	0.6685	0.6688	+0.0041	0.6698	0.6679	95	1,784
Mar	-	0.6720	+0.0033	0.6720	-	1	23

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8048	0.8084	+0.0039	0.8095	0.8037	12,198	33,686
Dec	0.8134	0.8144	+0.0038	0.8147	0.8134	58	1,107
Mar	-	0.8171	-	-	-	9	58

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.9292	0.9400	+0.0110	0.9407	0.9283	13,279	64,673
Dec	0.9513	0.9520	+0.0111	0.9520	0.9499	24	3,576
Mar	0.9625	0.9633	+0.0102	0.9633	0.9625	13	125

■ STERLING FUTURES (IMM) $62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5432	1.5440	+0.0012	1.5482	1.5410	8,114	40,981
Dec	1.5474	1.5450	+0.0014	1.5474	1.5430	22	110
Mar	-	1.5460	+0.0016	1.5460	1.5440	1	6

UK INTEREST RATES

LONDON MONEY RATES

Jun 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 4	5[illegible] - 5⅝	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	6[illegible] - 6[illegible]
Sterling CDs	-	-	5¾ - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5¾	6[illegible] - 6
Treasury Bills	-	-	5[illegible] - 5⅝	5⅝ - 5[illegible]	-	-
Bank Bills	-	-	5[illegible] - 5⅝	5⅝ - 5[illegible]	5⅝ - 5[illegible]	-
Local authority deps.	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5⅞ - 5¾	6 - 5⅞	6[illegible] - 6[illegible]
Discount Market deps	5¾ - 5	5[illegible] - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jun 14, 5.8058pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 25, 1996, Schemes II & III 7.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.09	94.10	-	94.11	94.09	10043	52565
Sep	94.13	94.14	+0.01	94.15	94.12	11556	81647
Dec	93.91	93.93	+0.02	93.94	93.88	12169	80648
Mar	93.48	93.54	+0.03	93.56	93.47	7549	55265
Jun	93.03	93.09	+0.04	93.10	93.02	3711	40220

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9400	0.10	0.20	0.20	0	0.06	0.27
9425	0	0.07	0.10	0.15	0.18	0.42
9450	0	0.02	0.04	0.40	0.38	0.61

Est. vol. total. Calls 1495 Puts 789. Previous day's open int., Calls 170000 Puts 136298

EMS EUROPEAN CURRENCY UNIT RATES

Jun 18	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.570	-0.036	-0.57	1.84	4
Netherlands	2.15214	2.14047	+0.00042	-0.54	1.82	4
Belgium	39.3960	39.3071	-0.0018	-0.23	1.49	2
Germany	1.91007	1.91014	-0.00066	0.00	1.26	-0
Austria	13.4383	13.4436	-0.0038	0.04	1.22	-0
Ireland	0.792214	0.793355	+0.001557	0.14	1.12	-1
Portugal	195.792	196.769	-0.143	0.50	0.76	-3
Denmark	7.28580	7.36354	-0.0057	1.07	0.19	-7
France	6.40608	6.48703	+0.00202	1.26	0.00	-11
NON ERM MEMBERS						
Greece	292.867	303.046	-0.287	3.48	-2.14	-
Italy	2106.15	1938.94	-3.99	-7.89	9.94	-
UK	0.786652	0.816944	+0.001601	3.77	-2.42	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
1.510	3.35	3.59	-	0.14	0.33	-
1.520	2.51	2.81	3.09	0.27	0.56	0.84
1.530	1.76	2.18	1.93	0.45	0.88	1.62
1.540	1.12	1.60	1.06	0.75	1.28	2.70
1.550	0.65	1.12	0.51	1.28	1.80	4.12

Previous day's vol., Calls 8,099 Puts 3,036 . Prev. day's open int., Calls 157,703 Puts 123,845

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.42	94.42	+0.01	94.42	94.41	15,277	284,981
Sep	94.18	94.18	+0.01	94.19	94.14	62,984	403,486
Dec	93.83	93.83	-	93.86	93.79	64,056	431,937

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.96	94.95	-	94.96	94.95	1,895	2,581
Sep	94.66	94.71	+0.02	94.71	94.68	363	5,733
Dec	-	94.42	-0.01	-	94.40	122	1,578

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9650	0.10	0.13	0.16	0.13	0.05	0.08	0.11	0.33
9675	0.01	0.03	0.05	0.06	0.21	0.23	0.25	0.51
9700	0	0.01	0.02	0.03	0.45	0.48	0.47	0.73

Est. vol. total, Calls 19530 Puts 7310. Previous day's open int., Calls 242843 Puts 279853

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9750	0.09	0.09	0.08	0.23	0.44	0.72
9775	0.03	0.04	0.04	0.42	0.64	0.93

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 8642 Puts 4825

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9175	0.43	0.71	0.87	0.18	0.24	0.38
9200	0.28	0.53	0.69	0.29	0.31	0.45
9225	0.17	0.39	0.54	0.43	0.42	0.55

Est. vol. total, Calls 3999 Puts 300. Previous day's open int., Calls 28347 Puts 13667

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	6.00
Allied Trust Bank	5.75	Exeter Bank Limited	7.00	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	5.75	●Hill Samuel	6.00	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	6.00	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Crédit Lyonnais	5.75	* Mount Credit Corp	6.00		
Cyprus Popular Bank	6.00	NatWestminster	5.75		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association
* In administration

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	486½	-1½	564	462	4,858	6.3	17.7
Bulmer (HP)	672	-1	625	442	302.0	2.7	17.9
Burn St Dist	102	-½	146	101	88.5	6.1	22.0
Glenmorangie A	735	+45	735	600	100.7	2.0	18.8
Grand Met	421	+1½	487	374	8,802	4.6	17.6
Guinness	458½	-4½	538	435	8,944	4.1	15.0
Highland	374	—	405	315	498.5	2.7	17.4
Kirin Y	784½	+7	879½	651	8,285	0.8	31.1
Macallan-Glen	178	—	217	150	208.6	1.0	36.1
Matthew Clark	783	+2	803	580	691.4	3.5	-
Merrydown	131	—	140	76	14.3	1.9	-
Seagram $	£22½	+¼	£25½	£20½	6,801	1.3	-

BANKS, MERCHANT

	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 9pc Cm 2nd Prf	50¼	—	50¼	50¼	6.21	19.8	-
Cater Allen	385	—	525	385	125.8	8.7	6.4
Close Bros	376	—	392	271½	451.9	3.0	16.6
Gerrard & Nat	373	—	372	369	182.4	8.0	♦
Hambros	228	—	252	180	400.6	4.1	♦
7½pc Cv Pf	108½	-½	117	94½	141.1	8.6	-
King & Shaxson	171	—	175	110	49.1	6.6	13.3
Leopold J	428	—	463	353	22.7	5.5	14.7
Rea Brothers	52	—	57	44	25.1	2.4	24.7
Schroders	1325	-12	1478	1130	2,880	1.5	18.4
NV	1035	-12	1188	890	455.4	1.8	14.5
Singer & Fried	119	+1	119	90	235.6	4.2	9.8
8½pc Cv Ln 09/14	£139½	+¼	£139½	[illegible]	42.8	8.1	-
Union	91	—	121	71	24.2	4.1	♦
Wintrust	303	—	305	237	38.1	4.6	17.3

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28¼	-¼	£34½	£28¼	1,984	2.9	Φ
Barlow	‡†	[illegible]	+¼	[illegible]	[illegible]	1,476	1.9	–
Gold Flds Prop R		133xd	-1	170	130	13.8	8.7	9.9
MK Props		75	–	96	75	3.01	12.7	–
SASOL	♥	685	+15	710	475	4,078	1.7	–
SA Brews		[illegible]	[illegible]	[illegible]	[illegible]	5,781	1.9	Φ
Standard Bank	□	[illegible]	[illegible]	[illegible]	[illegible]	3,182	1.5	21.5
Tiger Oats	†	988xd	-10	1270	805	1,354	1.9	17.6
Tongaat-Hulett		888xd	—	1247	892	765.8	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date

Abbreviations:
xd ex dividend,
xc ex scrip issue;
xr ex rights;
xa ex all,
xf ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 248, St Peter Port, Guernsey 01481 725021

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 257, St Peter Port, Guernsey 01481 710651

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

[illegible]

Apollo Investment Management Ltd

[illegible]

Arab Bank Fund Managers (Guernsey) Ltd

[illegible]

Atlantic Fund Management (Guernsey) Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

LGT Asset Management Ltd - Contd.

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Dynamic Pacific Portfolio Fund Plc

NAV $3.61 +0.16

For East Asia Harvest see Hamon Asset Mgmt

Egerton Capital European Fund Plc

[illegible]

Emerging Dynamic Fund Plc

[illegible]

Emerging Market Growth Fund Plc

[illegible]

F.I.T. Investment Trust Ltd (x)

[illegible]

Falcon Market Fund Plc

[illegible]

Framlington Investment Mngmt (Ireland) Ltd

[illegible]

Frank Russell Investments (Ireland) Ltd (u)

[illegible]

Fresh Korea Fund

[illegible]

GNI Fund Management (Ireland) Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Quilter Intl Mngt (IoM) Ltd

[illegible]

Sun Life Management (IoM) Ltd

[illegible]

Ulster Bank Global Funds Plc

[illegible]

Unibank Scandinavian Fund Ltd

[illegible]

ISLE OF MAN (REGULATED)(**)

For ATC Fund Management see Sydney International

AXA Equity & Law Intl Fund Mgs

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Lombard Odier (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Fidelity Funds - Contd.

[illegible]

Schroder International Selection Fd (a)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON STOCK EXCHANGE

MARKET REPORT

Sporting attractions choke off interest in stocks

By Steve Thompson, UK Stock Market Editor

There were small pockets of activity in a number of sectors but overall it was another lacklustre day in London's stock market.

Hopes that economic news would ginger up the UK and US bond markets, thereby enlivening equity markets on both sides of the Atlantic, were only partly fulfilled.

The UK public sector borrowing requirement for May was just marginally above forecasts, while there were no problems for bonds after publication of the US data, which included housing starts for May and first-quarter non-farm productivity.

With no economic surprises, bonds made modest progress but gave no real lift to equities. When dealing closed, the FT-SE 100 had declined 5.1 points to 3,756.4. There was no joy either for the second liners, where the FT-SE Mid 250 index ended 7.5 off at 4,454.7.

"It is very difficult to get too excited about the market when there are so many other distractions, principally the various sporting events this week," one dealer noted.

Racing at Royal Ascot, always a favourite event for stock market personnel, got under way yesterday, and many traders left early to watch the big football match between England and Holland.

A placing of Johnson Matthey shares by SBC Warburg provided some much needed action for marketmakers. The broker bought 22m Johnson Matthey shares, representing around 10 per cent of the issued capital, from Minorco at a discount to the market price, but was thought to have struggled to place all the stock by the close.

There were flurries of excitement too, as Cowie Group, the diversified motor distributor, and Greene King, the East Anglian brewer, launched substantial rights issues to finance acquisitions.

Cowie's £186m cash call, to help finance its purchase of British Bus, initially saw the shares come under pressure before a subsequent strong rally. Greene King shares, on the other hand, were always in demand, with analysts welcoming the brewer's purchase.

One of the factors behind the UK market's uncertain performance over recent weeks has been fears that a number of big fund raising operations were imminent.

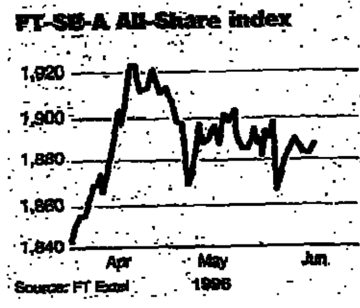
There has been a constant drip of cash calls but nothing of sufficient size to trouble the market. Cowie's offering was the biggest since Farnell's £350m issue in February.

Smith & Nephew was the top Footsie performer thanks to revived takeover speculation. Barclays continued to climb on the back of the strong buy note published by Kleinwort Benson, which was said to have been the catalyst for investor interest, particularly from the US.

Oil shares built on Monday's excellent performances, thanks to another rise in crude prices, amid concerns that the expected resumption of Iraqi oil sales may be blocked by the United Nations. Shell Transport looked set to challenge its all-time high, while BP rose strongly.

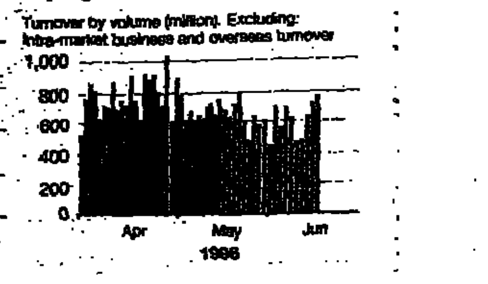
Turnover at the 6pm count was 747.2m shares, boosted by the Johnson Matthey placing, although 75m shares of the total represented trades in three "penny stocks".

FT-SE-A All-Share index



Equity shares traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3756.4	-5.1	FT Ordinary index	2776.8	-7.7
FT-SE Mid 250	4454.7	-7.5	FT-SE-A Non Fins p/e	16.88	16.91
FT-SE-A 350	1898.3	-2.8	FT-SE100 Fut Jun	3751.0	-5.0
FT-SE-A All-Share	1884.59	-2.62	10 yr Gilt yield	8.14	8.16
FT-SE-A All-Share yield	3.82	3.82	Long gilt/equity yld ratio:	2.21	2.21

Best performing sectors

1. Health Care .... +1.0
2. Oil: Integrated .... +0.8
3. Mineral Extraction .... +0.8
4. Extractive Inds .... +0.8
5. Oil Exploration .... +0.6

Worst performing sectors

1. Gas Distribution .... -1.3
2. Life Assurance .... -1.0
3. Retailers: General .... -0.9
4. Tobacco .... -0.8
5. Electricity .... -0.7

C&W up after buy note

Telecoms group Cable and Wireless rose 9 to 420p as ABN Amro Hoare Govett upgraded its stance on the shares.

The stock has been one of the weakest Footsie performers this year, sliding from an all-time high of 554p since early April, following the collapse of merger talks with BT. According to ABN, it trades on a price/earnings discount to the market of 20 per cent, if business start-up costs are added back to earnings. As a result, the broker has moved from "undervalued" to "buy".

Asiasat, the group's Hong Kong satellite associate, was successfully floated yesterday, and attention has now shifted to the impending Australian stock market debut of Optus. ABN values Optus, in which C&W has a 24.5 per cent stake, at around £2bn.

Johnson deal

Electronic materials and precious metals group Johnson Matthey, which touched a peak of 654p earlier this month, fell steeply after a large placing of stock appeared to run into difficulties. The shares ended off 20 at 630p in turnover of 33m.

SBC Warburg took on board 21.3m shares at 620p in a 'bought deal' but failed to find buyers for all of the stock. The broker looked to be holding around half of the stock at the close yesterday.

A late whisper in the market was that a US predator, or predators, were about to spoil the Southern Water bid battle being fought out by Southern Electric and Scottish Power. Rumours suggested that Florida Light and Power and possibly Southern Co, which already owns SWEB, may be looking to bid for Southern Electric.

Southern Electric was 4 off at 672p by the close, while Scottish Power edged ahead to 305p and Southern Water eased 5 to 988p.

Several factors combined to bring a decline to food retailer Tesco and the shares gave up 5½ to 300½p in trade of 4.9m.

Some dealers cited the availability of a large line of stock as behind the stock's decline, while others put it down to general profit-taking.

And there were those that attributed the retreat to the prospect of stiffer competition in the food retailing sector, following Monday's launch by J. Sainsbury of a new 'Reward' customer loyalty card.

However, analysts at SBC remain fans of the stock and said: "We still think it is cheap and it offers good value. It is on a 9 per cent discount to the market and at the forefront of marketing innovations in the sector. We see any weakness as a buying opportunity."

Shares in Sainsbury eased to 393½p, while those in Asda Group shed 1¼ to 118¼p, following trade of 5.8m.

A UK High Court granted an "indefinite" injunction stopping Asda from cutting prices of Anadin Paracetamol and other medicinal products below Resale Price Maintenance (RPM) levels.

But analysts said yesterday that the ban is likely to have little impact on Asda's profits as "pharmaceuticals only make a small contribution to group profitability".

In the rest of the sector, Watson & Philip gained 9 to 554p after the group reported improved interim figures. SBC Warburg favours the stock and said yesterday: "We expect earnings to grow by 18 per cent, compared with a food retail market average of around 6 per cent."

The bearish view of British Steel was given a brisk dusting down by NatWest Securities yesterday, and the shares came off 3¼ to 174½p in a modest 3.2m traded.

The broker reiterated its sell stance, in a note which pointed to no dividend growth this year and a 20 per cent reduction in 1997-98 as the profits cycle turns down. "We continue to be pessimistic for the entire European steel industry," NatWest declared.

Not all brokers, however, are negative on the stock. Credit Lyonnais Laing expects BS profits to recover strongly next year and remains "very positive" on the shares.

Motor engineer GKN, a dull market lately having successfully broken through the £10 barrier at the end of May, jumped 11 to 980p after Kleinwort Benson was said to have turned positive on the shares.

ERF put on 19 at 305p, taking the shares to a significant premium to the 275p offer on the table from Canadian group Western Star. Mayflower fell 13½ to 108½p on news that the group's $266m bid for Pullman, of the US, had been topped by Tenneco.

Barclays shares just failed to be the top performers in the FT-SE 100 index, but still managed an 18 advance to 800p for a two-day gain of 24p. Turnover was a good 5.3m shares.

Dealers said the stock continued to draw strength from the recent spate of broker "buy" recommendations, which they said uncovered a stock shortage.

Life insurers were again unsettled by selling from institutions keen to acquire stock in Sun Life, which returns to the market on Monday.

The main casualties of the institutional selling pressure were Refuge, which dropped another 24 to 447p, United Friendly, 18 off at 738p, and Britannic, 13 lower at 742p.

Oil shares mostly bucked the dull market trend as optimism about the price of crude put in a guarded reappearance. There was speculation that the return of Iraq to world oil markets might be delayed. BP added 4 at 563½p and Shell gained 9¼ at 939p.

Greene King's proposed acquisition of the Magic Pub group for £197.5m, financed partly by a £90m rights issue, had a warm reception from the market, where its shares rose 24 to 692p, just short of the all-time high of 695p.

Diversified motor distributor Cowie Group firmed 3 to 409p on news of the British Bus takeover, financed by an £186m rights issue. The deal represents more than 40 per cent of Cowie's market capitalisation and significantly changes the group's business base.

Some analysts had mixed feelings about the purchase. "By 1997, buses could be contributing more than half of total profits. It could be argued that this reduces the quality of the earnings profile," said one.

Bid speculation returned to Smith & Nephew. The shares rose 5¼ to 215¼p in brisk trading of 7.8m. In a recent circular to investors, analysts at Robert Fleming said: "Smith & Nephew represents a solid long term investment."

Profit-taking was the order of the day among general retailers, in a sector that has been celebrating the return of the "feelgood factor". Official retail sales figures for May are published this morning and are expected to show sales up 0.4 per cent on the month.

Leading stocks on the retreat included Dixons, which surrendered 12 to 540p, and Marks and Spencer, down 8 to 475p.

First Leisure rose 11 to 399p, as dealers reflected on an upbeat company statement that followed the release of interim figures.

Optical fibres group Fibernet made a strong AIM debut. The stock closed at 131p, after 1.6m were traded. The shares were floated at 100p.

MARKET REPORTERS: Joel Kibazo, Jeffrey Brown, Herjinder Kular.

FINANCIAL TIMES EQUITY INDICES

	Jun 18	Jun 17	Jun 14	Jun 13	Jun 12	Yr ago	*High	*Low
Ordinary Share	2776.8	2784.5	2782.7	2787.0	2787.6	2534.8	2895.2	2696.7
Ord. div. yield	4.03	4.02	4.03	3.98	3.98	4.19	4.06	3.76
P/E ratio net	16.37	16.40	16.38	16.21	16.22	15.97	17.25	15.96
P/E ratio nil	16.28	16.31	16.29	15.99	16.01	15.73	17.03	15.76

Ordinary Share Index since compilation: high 2895.2 19/04/96: low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2786.3	2781.5	2781.2	2781.8	2780.0	2778.9	2779.0	2778.8	2779.1	2787.1	2776.6

	Jun 18	Jun 17	Jun 14	Jun 13	Jun 12	Yr ago
SEAQ bargains	27,680	30,826	30,612	30,232	29,604	22,514
Equity turnover (£m)†	-	1903.9	2414.8	1867.8	1758.8	1390.6
Equity bargains†	-	34,651	38,465	35,507	35,792	34,077
Shares traded (m)†	-	640.8	793.0	739.4	828.0	552.1

†Excluding intra-market business and overseas turnover.

	Jun 18	Jun 17	Jun 14	Jun 13	Jun 12	Yr ago	*High	*Low
FT-SE AIM	1110.40	1118.80	1121.60	1113.70	1108.90	-	1140.40	985.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	551	Total Highs	80	Total contracts	7,744
Total Falls	567	Total Lows	28	Calls	3,229
Same	1,607			Puts	4,515

June 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3755.0	3751.0	-5.0	3760.0	3745.0	13178	27465
Sep	3758.5	3732.5	-6.0	3781.5	3748.0	9291	39249
Dec	3779.5	3776.0	-6.0	3780.0	3779.5	66	787

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4460.0	-5.0			0	511
Sep		4495.0	-5.0			0	3685

FT-SE 100 INDEX OPTION (LIFFE) (3756)* £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P
Jun	158½	1	108½	1	66½	3	15½	15	1½	54	1	104	1	154	1	204
Jul	159	9	116½	16	78½	29	48½	48½	26½	76½	12	114	4	159	1½	209
Aug	170½	24	132½	36	99	52	70	73½	44	100½	27½	131	15½	169½	7½	213
Sep	188	39½	150½	51	120	69½	90½	89½	67	115½	48½	145	30	179½	19	219½
Dec†	243	75			180½	110½			128½	157½			85½	215		

Calls 228 Puts 1,387

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P
Jun	178	1	128	1	78½	1	32	6	5½	29½	1	74	1	124	1	174
Jul	182	7	137½	12½	96½	21	62½	36½	36	59½	17½	91	7	130½	2½	175½
Aug	190	19½	150½	29½	114½	43	83	60½	58	83½	35	111½	20	146	10½	186
Sep			171	45½			104	77			56	127½			25½	196½
Dec†			228½	84			170½	121			118½	166			78½	223

Calls 16 Puts 540 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	72.8	105	96	Aberforth Smlr C	97		-	-	-	-
-	F.P.	3.94	55	43	Biocompatibles W	50		-	-	-	-
90	F.P.	10.1	105	99	†Carisbrooke	100	-1	-	-	-	-
-	F.P.	17,746	237⅞	236⅝	Elect Data Sys	236 11/32	+1/32	-	-	-	-
-	F.P.	19.4	81	63	†Emtech	65		-	-	-	-
115	F.P.	46.5	158	130	European Telecom	156	-1	-	-	-	-
-	F.P.	49.7	138	130	†Fibernet Group	131		-	-	-	-
100	F.P.	95.0	97	91½	Fidelity Asian V	92½	-1	-	-	-	-
-	F.P.	7.50	37	32	Fidelity Asn Wts	33½		-	-	-	-
-	F.P.	3.15	65	63	†Habitus	65		-	-	-	-
60	F.P.	7.74	118	112	†Hydro-Dynamic P	115		-	-	-	-
-	F.P.	26.8	101	90	INVESCO E & I C	95		-	-	-	-
-	F.P.	13.6	116	105	†Independent Engy	106		-	-	-	-
-	F.P.	34.0	133	123	Lands Improvement	131	-1	-	-	-	-
200	F.P.	44.7	300	265	Lawtex	295	-5	L60	2.2	2.5	16.6
-	F.P.	101.3	500	460	PPL Therapeutics	480	-18	-	-	-	-
190	P.P.	2,078	226	205	Railtrack	215½	-½	W20.6	2.6	6.4	7.5
-	F.P.	34.5	99	96	Renaissance US G	98		-	-	-	-
70	F.P.	16.5	78	71	SEA Multimedia	73		-	-	-	-
-	F.P.	185.3	190	190	Schroder Venture	192	-1	-	-	-	-
-	F.P.	-	67	60	Taiwan Inv Tst C	62		-	-	-	-
100	F.P.	100.5	103½	51	Templeton Emg C	103½	-½	-	-	-	-
118	F.P.	18.0	138	108	†Thera Pennet	111	-2	-	-	-	-
-	F.P.	3.10	56	43	†Toys Hundles	55		-	-	-	-
174	F.P.	19.8	178	176	Treats Group	176		-	-	-	-
94	F.P.	3.84	95	91	†Whatsure	93		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jun 17	% chg on day	Jun 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index†(31)	2076.41	-0.5	2085.93	2001.00	1.49	-	2520.73	1722.93
Regional Indices								
Africa (13)	2761.11	+0.6	2745.56	2533.95	2.63	37.58	3553.86	2272.74
Australasia (6)	2410.37	-2.6	2473.97	2312.80	2.73	28.16	2827.34	2142.76
North America (12)	1836.08	-0.5	1845.62	1780.74	0.74	65.30	2166.39	1468.94

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FT - SE Actuaries Share Indices — The UK Series

	Jun 18	Day's chge%	Jun 17	Jun 14	Jun 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3756.4	-0.1	3761.5	3758.6	3761.7	3377.2	4.05	2.14	14.42	88.58	1537.33
FT-SE Mid 250	4454.7	-0.2	4462.2	4464.6	4468.0	3659.2	3.39	1.75	21.08	100.34	1792.32
FT-SE Mid 250 ex Inv Trusts	4496.0	-0.2	4505.2	4507.3	4511.5	3668.3	3.49	1.80	19.95	105.36	1812.72
FT-SE-A 350	1898.3	-0.1	1901.1	1898.2	1901.7	1673.3	3.90	2.07	15.51	44.33	1588.45
FT-SE-A 350 Higher Yield	1823.6	-0.2	1827.4	1821.9	1829.3	1682.6	5.18	1.92	12.53	52.27	1275.66
FT-SE-A 350 Lower Yield	1980.4	-0.1	1982.1	1981.7	1981.4	1664.7	2.74	2.31	19.75	36.71	1373.41
FT-SE SmallCap	2238.00	-0.1	2239.78	2239.97	2240.27	1852.01	2.92	1.76	24.32	32.70	1837.24
FT-SE SmallCap ex Inv Trusts	2239.47	-0.1	2240.82	2240.69	2241.46	1830.50	3.08	1.85	21.99	34.86	1850.17
FT-SE-A ALL-SHARE	1884.59	-0.1	1887.21	1884.58	1887.80	1652.74	3.82	2.05	15.97	42.67	1601.29

FT-SE Actuaries All-Share

	Jun 18	Day's chge%	Jun 17	Jun 14	Jun 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3496.60	+0.8	3468.61	3471.21	3511.16	2885.44	3.83	1.83	17.81	79.04	1506.45
12 Extractive Industries(6)	4373.40	+0.8	4340.37	4346.13	4357.34	3814.54	3.67	2.52	13.54	109.19	1266.95
15 Oil, Integrated(3)	3539.48	+0.8	3510.04	3512.77	3562.18	2887.07	4.04	1.72	17.93	81.84	1564.06
16 Oil Exploration & Prod(15)	2487.13	+0.6	2472.40	2470.88	2480.12	2074.08	2.11	1.60	36.90	33.15	1496.88
20 GEN INDUSTRIALS(275)	2071.38	-0.2	2076.28	2070.63	2076.31	1951.99	4.15	1.90	15.88	41.50	1134.47
21 Building & Construction(34)	1210.49	+0.5	1204.70	1198.73	1197.86	981.21	3.40	1.74	21.14	20.76	1015.33
22 Building Matls & Merchs(29)	1920.17	+0.3	1915.11	1912.54	1912.58	1798.92	3.98	1.72	18.20	42.10	974.16
23 Chemicals(25)	2495.19	-0.3	2502.31	2500.15	2502.47	2401.86	3.99	1.96	15.97	65.67	1187.75
24 Diversified Industrials(19)	1620.92	-0.6	1630.52	1633.31	1642.83	1847.92	6.42	1.70	11.47	54.89	914.25
25 Electronic & Elect Equip(37)	2397.23	-0.4	2405.87	2379.17	2407.91	2061.40	3.09	1.68	24.12	17.23	1238.78
26 Engineering(71)	2469.23	-0.4	2478.39	2469.13	2486.77	1988.29	3.23	2.49	15.54	31.46	1497.47
27 Engineering, Vehicles(13)	3023.50	-0.2	3028.11	3019.27	3020.86	2300.73	3.52	1.96	18.12	53.22	1569.96
28 Paper, Pckg & Printing(26)	2648.66	-0.1	2650.94	2651.70	2658.23	2991.15	3.87	1.98	16.29	55.87	1109.10
29 Textiles & Apparel(18)	1414.50	----	1414.21	1409.62	1405.42	1626.69	5.00	1.53	16.31	41.39	872.99
30 CONSUMER GOODS(90)	3576.31	-0.3	3587.85	3561.86	3567.94	3235.34	3.93	1.89	16.84	81.12	1326.23
32 Alcoholic Beverages(8)	2729.41	-0.2	2736.00	2758.17	2758.08	2788.10	4.59	1.62	16.87	71.90	990.76
33 Food Producers(23)	2494.28	+0.4	2484.24	2484.12	2473.29	2512.12	4.17	1.97	15.24	65.08	1135.25
34 Household Goods(15)	2663.65	----	2663.82	2648.46	2647.74	2676.45	3.73	2.15	15.57	55.78	1021.88
36 Health Care(20)	2145.83	+1.0	2124.38	2121.37	2113.91	1802.93	2.51	1.84	27.03	33.27	1309.80
37 Pharmaceuticals(12)	5184.45	-0.7	5221.24	5148.88	5161.81	4184.31	3.28	1.87	20.32	91.18	1784.36
38 Tobacco(1)	4332.86	-0.8	4366.74	4290.50	4349.80	4247.38	5.87	2.12	10.05	156.18	1088.38
40 SERVICES(253)	2564.31	-0.4	2574.31	2574.18	2566.96	2044.98	2.81	2.02	22.07	49.48	1341.14
41 Distributors(32)	2854.31	+0.1	2851.34	2857.00	2867.92	2593.39	2.89	1.76	24.58	48.29	1094.07
42 Leisure & Hotels(23)	3249.26	-0.1	3253.34	3233.38	3233.37	2355.17	2.74	1.92	23.67	142.15	1750.04
43 Media(46)	4225.04	-0.3	4235.81	4232.25	4229.61	3065.68	2.15	1.88	30.85	51.28	1531.93
44 Retailers, Food(15)	2048.06	-0.7	2062.73	2071.87	2091.02	2008.71	3.70	2.31	14.82	48.47	1314.21
45 Retailers, General(43)	2128.37	-0.9	2148.61	2157.37	2126.14	1661.72	2.94	2.16	19.70	45.45	1227.46
47 Breweries, Pubs & Rest.(24)	3256.71	-0.2	3263.89	3258.41	3247.16	2460.85	3.12	2.14	18.70	49.94	1589.88
48 Support Services(49)	2470.67	----	2469.67	2469.19	2458.65	1631.38	1.87	2.41	27.78	27.48	1573.80
49 Transport(21)	2393.22	-0.1	2395.65	2377.33	2384.02	2253.16	3.74	1.47	22.68	42.47	1000.40
60 UTILITIES(32)	2362.53	-0.2	2367.15	2372.76	2375.68	2408.81	5.58	2.01	11.16	74.17	1013.69
62 Electricity(11)	2531.65	-0.7	2550.51	2578.43	2585.53	2258.68	6.40	2.46	7.94	174.88	1238.26
64 Gas Distribution(2)	1246.13	-1.3	1262.50	1291.30	1262.50	2025.06	9.82	1.36	9.57	66.67	653.60
66 Telecommunications(7)	2042.86	+0.4	2035.01	2021.35	2031.35	2116.27	4.21	1.79	16.53	12.58	930.40
68 Water(12)	2143.34	-0.5	2154.07	2167.64	2169.01	1916.61	6.18	2.35	8.61	66.78	1196.63
69 NON-FINANCIALS(684)	2011.49	-0.2	2015.00	2011.45	2014.69	1779.49	3.82	1.94	16.88	44.57	1533.43
70 FINANCIALS(106)	2871.71	----	2870.86	2869.73	2878.74	2414.44	4.16	2.65	11.33	77.85	1245.87
71 Banks, Retail(8)	3943.14	+0.3	3932.04	3927.84	3940.71	3241.41	3.95	2.89	10.95	110.04	1298.55
72 Banks, Merchant(6)	3611.98	-0.6	3632.09	3638.61	3642.69	3320.86	2.74	2.37	19.25	46.78	1147.48
73 Insurance(23)	1478.75	+0.2	1476.36	1476.61	1489.08	1314.91	5.35	3.33	7.02	47.91	1121.01
74 Life Assurance(6)	3365.00	-1.0	3397.46	3405.37	3417.88	2710.83	4.44	2.24	12.57	100.72	1410.63
77 Other Financial(21)	2883.73	-0.1	2867.71	2887.58	2868.35	2028.59	3.91	1.74	18.43	57.91	1526.84
79 Property(41)	1527.23	-0.3	1532.54	1531.48	1528.64	1470.24	4.17	1.29	23.24	33.27	946.78
80 INVESTMENT TRUSTS(125)	3178.14	-0.1	3182.00	3188.78	3180.61	2787.43	2.22	1.09	51.84	39.01	1113.47
89 FT-SE-A ALL-SHARE(884)	1884.59	-0.1	1887.21	1884.58	1887.80	1652.74	3.82	2.05	15.97	42.67	1601.29
FT-SE-A Fledgling	1276.27	----	1276.10	1275.72	1274.69	1010.75	2.69	2.18	21.27	15.62	1336.12
FT-SE-A Fledgling ex Inv Trusts	1292.54	----	1292.42	1291.86	1290.84	1003.71	2.89	2.36	18.36	17.05	1353.44

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3763.5	3758.5	3756.2	3757.5	3757.7	3757.9	3757.9	3756.9	3755.6	3764.2	3752.8
FT-SE Mid 250	4462.8	4461.0	4458.9	4456.6	4457.3	4455.7	4455.4	4457.3	4455.4	4463.2	4454.7
FT-SE-A 350	1901.8	1899.0	1898.7	1899.0	1899.1	1898.6	1899.2	1898.9	1898.4	1902.2	1897.4

Time of FT-SE 100 Day's high: 8.35 AM Day's low: 6.40 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3632.4 (23/01/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1187.9	1188.2	1188.4	1189.1	1191.2	1191.5	1193.3	1192.8	1193.4	1193.4	1185.6	+8.8
Pharmaceuticals	5143.6	5122.3	5120.9	5133.3	5127.3	5122.7	5131.3	5126.2	5122.6	5114.5	5151.3	-36.8
Water	2140.0	2137.5	2135.9	2135.3	2137.0	2138.7	2136.8	2134.4	2131.3	2130.1	2141.2	-11.1
Banks, Retail	3979.1	3971.1	3970.4	3970.6	3974.0	3976.9	3979.6	3985.3	3990.5	3993.5	3982.2	+11.3

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. "The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FT-SE International Limited 1996. All Rights reserved. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trademarks of the London Stock Exchange and the Financial Times Limited and are used by FT-SE International Limited under licence. Auditor: The WM Company. † Sector P/E ratios greater than 80 are not shown. $ Values are negative. Deletion: Gus Carter (Fledgling)

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	956	451	+3
ASDA Group†	5,800	118¼	-1½
Abbey National†	509	547	-4
Albert Fisher	57	47	-½
Allied Domecq†	1,400	468½	-1½
Anglian Water	30	576	-1
Argos†	216	767	+3
Argyll Group†	2,700	348	-2
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 18 / Sch)

BELGIUM/LUXEMBOURG (Jun 18 / Frs.)

CZECH REP (Jun 18 / Korana)

DENMARK (Jun 18 / Kr)

FINLAND (Jun 18 / Mkk)

FRANCE (Jun 18 / Frs.)

GERMANY (Jun 18 / Dm.)

GREECE (Jun 18 / Drachma)

ITALY (Jun 18 / Lira)

		+/-	High	Low	Yld	P/E
IFIL	4,700	+50	6,550	4,480	2.6	...
IFIL S	2,645	+45	2,875	2,370	5.5	...
IMI	12,710	+250	12,775	9,755	3.9	...
Ina	2,245	+90	2,460	1,995	2.4	...
Italcm	12,650	+450	13,380	9,460	0.8	...
Italcm	5,425	+225	5,610	3,805	5.7	...
Itlgas	5,595	+135	5,670	4,390	2.3	...
Espres	4,400	+25	4,450	2,750	2.3	...
MagMar	2,240	+65	2,650	1,800	3.6	...
MkZoto	10,030	+730	11,500	9,000	2.3	...
MedBnc	10,315	+165	11,830	9,615	1.9	...
Montad	957	+8	1,069	895	...	...
MontRs	954	+9	995	871	...	...
Olivet	937	+29	1,290	713	...	...
Pirell	2,205	+70	2,370	1,827	3.8	...
PirSpa	2,615	+45	2,690	1,980	1.9	...

NORWAY (Jun 18 / Kroner)

POLAND (Jun 18 / Zloty)

		+/-	High	Low	Yld	P/E
Elbrm	20	+1	19.20	6	0.9	...
Exbud	28.60	-1.28	41.80	18.50	...	...
Mostal	11.70	+.10	13.90	8.40	...	...
Wedel	120	+2	148	82	1.0	...
Wlczak	22	-.10	27.50	21.60	1.4	...
Zywiec	210	-1	236	170	1.0	...

		+/-	High	Low	Yld	P/E
PremFn	390	+12	870	330	...	...
RAS Rl	8,320	+115	9,880	7,500	4.9	...
RAS	16,425	+25	18,650	15,100	2.1	...
Rinasc	10,900	+110	11,250	8,025	0.9	...
SAI	15,440	+295	18,250	14,800	1.3	...
SAI Rl	6,250	+45	7,400	5,910	3.8	...
SASIBa	6,825	+125	7,050	5,230	2.0	...
SASIB	3,200	+5	4,070	2,780	6.9	...
SME	1,695	-86	3,800	1,435	6.9	...
STET	5,425	+65	5,750	4,245	2.4	...
STET R	4,250	+170	4,485	3,050	3.5	...
Saipem	6,225	+25	6,700	3,390	1.9	...

NETHERLANDS (Jun 18 / Frs.)

PORTUGAL (Jun 18 / Escudo)

		+/-	High	Low	Yld	P/E
BCO Pl	2,000	-36	2,070	1,789	5.0	...
BCPort	1,858	-7	2,140	1,894	9.2	...
BESant	2,480	-30	2,800	2,220	4.7	...
BancTA	3,060	+10	3,120	2,485	8.2	...
ModCnt	4,205	+104	4,340	3,900	1.5	...
PTelcm	3,769	+19	3,875	2,803	2.4	...
Soninv	3,975	-5	4,020	3,180	3.8	...
Unicer	2,750	...	2,980	2,405	3.8	...

SPAIN (Jun 18 / Pts.)

SWEDEN (Jun 18 / Kronor)

SWITZERLAND (Jun 18 / Frs.)

TURKEY (Jun 18 / Tk Lira)

PACIFIC

JAPAN (Jun 18 / Yen)

HONG KONG (Jun 18 / H.K.$)

INDONESIA (Jun 18 / Rupiah)

MALAYSIA (Jun 18 / MYR)

NEW ZEALAND (Jun 18 / NZ $)

SINGAPORE (Jun 18 / S$)

AUSTRALIA (Jun 18 / Aust$)

SOUTH KOREA (Jun 18 / Won)

TAIWAN (Jun 18 / TW $)

THAILAND (Jun 18 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 18 / Can $)

4 pm close

MONTREAL (Jun 18 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Jun 18 / Rand)

INDICES

Indonesia Jakarta Comp.(10/8/82)	588.23	590.73	592.36	[illegible]		Turkey Istanbul Comp.(Jan 1986)	67723.5	67643.5	67392.8	72886.80 9/4 / 38779.38 2/1
Ireland ISEQ Overall(4/1/88)	2585.0	2586.00	2587.22†	2598.80 18/6	2234.91 2/1	WORLD MS Capital Intl.(1/1/70)	778.1*	775.3	775.7	780.30 22/5 / 725.90 15/1
Italy Banca Comm Ital(1972)	665.12	655.91	654.00	674.10 20/5	572.21 23/3	CROSS-BORDER Eurotrack 100(26/10/90)	1685.57	1681.90	1682.14	1699.17 28/5 / 1594.49 11/1
MIB General(2/1/96)	1127.0	1112.0	1109.0	1142.00 20/5	970.60 27/3	Euro Top-100(26/6/90)	1445.82	1440.82	1437.16	1450.28 28/4 / 1333.61 11/1
Japan Nikkei 225(16/5/49)	22332.40	22245.38	22289.39	22332.40 18/6	19734.70 13/3	HSBC JC Orgn(31/12/88)	(u)	371.57	371.88	383.36 16/4 / 344.19 2/1
Nikkei 300(1/10/82)	314.78	313.61	315.71	318.05 26/4	284.46 11/3	ING Brngs Emrg(7/1/92)	161.49	160.92	160.36	164.14 14/5 / 147.36 2/1

US INDICES

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Int Rectif	3,006,800	19¼	-1⅞
McDonalds	2,998,800	45⅝	-¼
AT & T	2,822,900	63¼	+½
WMX Tech	2,776,900	32¾	+¾
LSI Logic	2,450,000	28⅞	-⅜
Micron Tech	2,258,100	29½	-¼
Seagate	2,234,800	45⅝	-2⅞

■ TRADING ACTIVITY

NYSE			
Issues Traded	3,130	3,110	3,138
Rises	1,090	1,006	929
Falls	1,202	1,315	1,347
Unchanged	838	789	862
New Highs	57	58	67
New Lows	36	34	59

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x index)							
Jun	2097.0	2104.5	+1.5	2109.0	2091.0	17,616	47,996
Jul	2095.5	2103.0	+1.5	2106.0	2092.0	2,409	18,037
■ DAX							
Jun	2558.0	2557.0	+5.5	2558.0	2547.5	24,993	-
Sep	2577.5	2576.0	+3.5	2577.0	2568.0	14,191	-

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ OMX							
Jun	1542.00	1542.50	+3.50	1543.00	1532.00	2,882	15,560
Jul	1544.75	1546.75	+1.75	1546.75	1539.50	901	2,006
■ SOFFEX							
Jun	3607.1	3624.0	+20.0	3630.0	3606.0	9,758	13,100
Jul	3606.4	3627.5	+22.5	3632.5	3608.0	5,702	22,846

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	665.80	666.00	+0.30	666.30	665.00	26,448	90,387
Sep	671.20	671.80	+0.30	672.20	670.55	77,676	125,774

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	22460.0	22470.0	+50.0	22520.0	22380.0	22,170	200,408
Sep	22450.0	22450.0	-90.0	22450.0	22450.0	1	4,113

Open interest figures for previous day.

* Sat Jun 15: Taiwan Weighted Price 6412.40; Korea Comp Ex 868.49. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 26 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 18 - 2555.81 +5.10.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, June 18, 1996

	Stocks Traded	Closing Prices	Change on day
Sumitomo Corp	10.8m	1030	+20
Teisan	8.6m	955	-65
Kanematsu	6.1m	785	+11
Takara Shuzo	5.0m	1150	+60
Mitsubishi Hvy	4.8m	938	-10
Clarion	4.7m	623	+40
Mitsubishi Oil	4.4m	946	+7
Matsushita	4.4m	1970	+20
Toyota Motor	4.2m	2620	+30
Nip Steel Corp	4.1m	360	+2

4 pm close June 18

NEW YORK STOCK EXCHANGE PRICES

1996 High	1996 Low	Stock	Div	Yld. %	P/ E	Sls. 100s	High	Low	Close Quote	Ch'ge Prev. Close
23¾	19⅛	AAR	0.48	2.4	21	131	20	19¾	19¾	-⅛
46⅛	36⅜	AMP	1.00	2.4	20	9872	41⅛	40¼	41	+⅜
97½	68	AMR			23	7608	94⅞	92	93⅜	+1⅝
50½	37⅜	ASA	1.80	4.4	27	455	41⅛	40¾	40⅞	-⅛
44¾	38⅛	AbbtL	0.96	2.2	19	10880	43¼	43	43¼	+¼
17¼	13¼	AbtSbl Pr	0.40	2.8	7	2299	14¾	13¾	14⅛	+½
38¼	27	ABM Ind	0.70	1.9	19	73	37¾	37¼	37⅝	+½
17⅞	13⅞	Acptncain			46	120	17⅝	17½	17⅝	
50¾	37¾	ACE Ltd	0.56	1.2	11	761	46⅞	45⅞	46⅛	+¼
9⅞	9⅛	ACM Gvt In x	0.90	9.4	8	59	9¾	9⅝	9⅝	-⅛
7⅞	6⅝	ACM GvOpp x	0.57	8.4		103	6⅞	6¾	6¾	
7¼	6	ACM Gvt Sp x	0.66	10.6		830	6¼	6⅛	6⅛	
9⅛	8¼	ACM Gvt Se x	0.90	10.6		180	8½	8⅜	8½	
9½	8¾	ACM Man x	0.90	10.3		479	8⅞	d8¾	8¾	
30¾	16½	AcmeClv	0.52	1.7	7	20	29⅞	29⅞	29⅞	
13⅞	8⅛	Acme Elect			50	346	9⅞	8¾	9	-½
32½	27¾	Acordia	0.80	2.5	19	20	32⅛	31¾	32⅛	+⅜
21⅜	12	Acuson			75	744	16⅞	16½	16⅝	-⅛
19½	18⅜	Adams Expr	1.66	8.7	0	160	19¼	19⅛	19⅛	-⅛
21¼	15⅛	AdvMic			6	7834	16⅛	d15⅛	15¼	-⅞
11⅛	8½	Advest Grp	0.16	1.5	7	40	10⅝	10½	10½	-¼
26⅛	9½	Advo Inc	0.10	1.0	56	207	10½	10¼	10¼	-¼
50⅞	41⅛	Aegon	1.19	2.5	14	44	47⅛	46¾	47	+¼
6¾	3½	Aeroflx			3	534	6¼	5⅞	5⅞	-⅜
78¾	66⅜	Aetnal.	2.76	3.7	19	11816	73⅞	72⅝	73⅝	+¾
33	28¾	Aflac	0.40	1.4	12	3160	29¾	29⅛	29⅛	-⅛
20⅜	17⅛	AGL Res	1.08	5.8	16	826	18⅛	17⅞	18⅛	+⅜
27⅝	21¼	Ahmnsn	0.88	3.3	7	3449	26¾	26½	26½	-⅛
60⅞	50⅜	AirPrC	1.10	2.0	15	1733	57⅞	56⅜	56⅜	-1¼
28⅜	23½	Airbne Frt	0.30	1.2	23	200	26⅛	25⅜	25⅞	-⅜
22½	15½	Airgas Inc			33	431	20¼	20	20⅛	
18⅞	15	Airlease	1.80	10.5	10	63	17⅛	17	17⅛	+⅛
33⅝	25⅝	AirTch			97	7655	29¾	29⅛	29⅛	-¾
30¾	15⅞	Alaska Air	0.20	0.7	14	899	28⅝	28	28⅛	-⅜
22⅝	17¼	Albany Ind x	0.40	2.0	13	120	20¼	20	20¼	+⅛
24⅛	17¼	Alberti x	0.22	1.0	8	577	22½	22⅛	22½	+½
43¾	32½	AlbCuB	0.36	0.9	20	402	41½	40¾	41	+1⅜

Continued on next page

4 pm close June 18

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
20⅜	13⅛	SciAtl	0.06	0.4	40	3520	16	15½	15⅝	-¼
21	17	Scotsman	0.10	0.5	12	123	20⅝	20½	20½	-¼
45¾	36⅛	Scripps	0.52	7.2	26	36	45⅞	44⅞	45	-⅜
18⅛	14½	[illegible]	0.02	0.1		33	14¾	d14½	14⅝	-⅛
12½	11	[illegible]	0.16	1.3		246	12⅜	12¼	12⅜	+⅛
20½	16	[illegible]	0.70	3.5	2	47	20	19⅞	20	
16	15	[illegible]	1.46	9.7		z100	15⅛	15⅛	15⅛	-⅛
67¾	44¾	[illegible]				1725062	46⅞	45⅛	45⅝	-¼
35⅞	31¾	Seagram x	0.60	1.8	23	2856	34⅝	33⅞	34	+⅛
24⅝	17⅛	Seagull En			16	2467	23⅞	22¾	23⅞	+1
38⅛	28	Sealed Air			28	1177	35⅝	35	35¼	-¼
53⅞	38¾	SearsR	0.92	1.8	14	5504	51	50	50⅛	-⅝
22⅞	19¼	SecCapSBI	1.24	5.6	22	431	22¼	22⅛	22¼	
13	11⅞	Seligm Sel x	0.84	6.7		83	12⅝	12½	12⅝	-⅛
23¾	13⅝	[illegible]	0.22	1.3	14	3117	17	16¼	16⅝	-⅜
43	29½	SequaA	0.60	1.4	112	110	u43	42½	42⅝	+⅛
49	38	SequaB	0.50	1.0	128	65	u49	47	48¾	+2⅛
60¼	36⅞	SenvCp	0.48	0.8	30	2637	59	57¾	57¾	-1
34	29⅛	SvMstr	1.02	3.0	15	274	u34	33⅝	33¾	+¼
6¼	4½	ServMerch			11	1910	6	5⅝	5¾	-⅛
48¼	28½	SGSThm			7	4230	36⅝	35⅞	35½	-3
15⅛	10⅝	Shaw Ind	0.30	2.2	40	2143	13½	13	13½	+½
12⅞	10⅝	Shelby Wil	0.28	2.4	14	10	11½	11⅜	11½	-⅛
88⅛	76⅝	ShellTr	3.28	3.7	17	88	88	87¾	87¾	+¾
47	38	ShenW	0.70	1.6	18	1535	45⅛	44¼	44⅞	

NASDAQ NATIONAL MARKET

4 pm close June 18

AMEX PRICES

4 pm close June 18

AMERICA

Dow hovers as Nasdaq slides further

Wall Street

Technology shares continued their recent tumble in midsession trading as the Nasdaq composite slid for a fifth session, while other indices were mostly flat in spite of modest gains on the bond market, *writes Lisa Bransten in New York*.

In early afternoon trade, the Nasdaq composite, which is about 40 per cent comprised of technology shares, had receded 16.76 to 1,190.88, sending the index below the 1,200 level for the first time since early April. The Pacific Stock Exchange technology index lost 1.2 per cent.

Declining technology shares included Microsoft, off $2½ at $122⅝, Intel, $1¼ weaker at $70⅝, Cisco Systems, which lost $1⅝ at $52⅝, and America Online, which shed $2 to $43⅝.

Other indices hovered close to Monday's closing levels in spite of an increase in Treasury prices due to unexpected weakness in data on new home construction.

At 1 pm the Dow Jones Industrial Average was off 2.59 at 5,650.19 and the Standard & Poor's 500 stood 1.31 easier at 663.85, while the American Stock Exchange composite gained 1.51 at 592.04. Volume on the NYSE was 212m shares.

Shares in ValuJet tumbled $4¼ or 43 per cent to $5¾ in the wake of its decision late on Monday to suspend operations, under pressure from the Federal Aviation Administration. The FAA had been conducting an extensive safety review of ValuJet in the wake of last month's crash of one of the carrier's DC9s in the Florida Everglades.

But ValuJet's travails proved good for the stock prices of most other airlines. Shares in Delta Air Lines, which had seen some of its business chipped away by its low cost rival, jumped $3¼ to $83⅝.

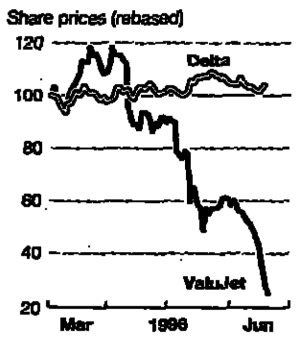
Other leading carriers benefited from speculation that safety-conscious passengers would be reluctant to fly with low cost airlines. UAL, the parent company of United Airlines, added $1½ at $55⅞, AMR, parent of American Airlines, rose $2⅛ to $94⅛ and USAir added $⅝ at $18⅞.

Those increases helped to spark a 1.6 per cent gain in the Dow Jones Transportation index, which had fallen in the seven previous sessions.

Elsewhere, shares in H.J. Heinz slipped $⅝ or 2 per cent to $31⅝ after the US food company reported fourth-quarter results that were weaker than analysts' expectations.

Heinz earned 45 cents a share in the fourth quarter, 2 cents lower than the mean forecast from analysts.

US airlines



Source: FT Extel

Canada

Toronto extended Monday's late rebound, which brought a halt to a 10-session losing streak, and the TSE 300 composite index was 22.40 higher at 5,065.60, but in very weak volume of 22.4m shares.

Among active issues, Fairfax Financial Holdings jumped to a high of C$175 before easing back to trade C$2 ahead at C$170. Canadian Pacific rose 70 cents to C$29.70.

Scott's Hospitality rose 45 cents to C$12.85. Laidlaw said on Monday that it had revised its offer for Scott's in an attempt to resolve a legal tussle with PepsiCo Canada.

Mexico climbs 1.2%

Mexico City registered solid gains, supported by the continued cooling off of the US long bond, and the IPC index of 37 leading stocks was 38.50 or 1.2 per cent higher in lunchtime trade at 3,229.16.

Analysts noted that the market also appeared to be gaining on expectations of lower rates at yesterday's primary *Cetes* (Treasury bill) auction.

SAO PAULO overcame early weakness on profit-taking after Monday's sharp rise and, by noon, the market was back in positive territory. The Bovespa index, which jumped 3 per cent on Monday, added 420.85 points at 58,469 as the market awaited an announcement today from President Fernando Henrique Cardoso of a package of measures to boost exports, including special credit lines.

BUENOS AIRES edged forward, catching up with Monday's gains abroad and led by a rise in the oil giant YPF.

The Merval index was 4.04 higher at 589.17 as YPF jumped 1.6 per cent to 22.32 pesos.

Engen rockets 16% higher

Johannesburg featured a 16 per cent rise in Engen, the oil company, as investors snapped up the stock after the sale of a 30 per cent stake to Malaysia's state-owned Petronas.

Engen's shares, trading for the first time since being suspended a week earlier, finished R4.25 stronger at R30.25. In pre-trading hours they climbed to their best level of the year at R35.50 after a technical hitch on the automated trading system allowed a handful of deals to go through ahead of the official opening.

Engen said that the deal would boost co-operation between the two companies in development in Africa and the Indian Ocean Rim.

The broad market was mixed, with industrials putting in a robust performance in volatile futures related activity, while golds were weak.

The overall index edged 3.1 higher to 6,822.9, while industrials put on 44.2 at 8,147.2 and golds shed 28.0 to 1,777.9.

EUROPE

Interest rate hopes drive Milan sharply ahead

Hopes that a long awaited cut in interest rates could be imminent drove **MILAN** sharply higher. Falling inflation forecasts for June were due to be published this week, and the presentation of the mini-budget, expected today, was expected to provide the catalyst.

The Comit index picked up 9.21 to 665.12, while the real-time Mibtel index added 166 at 10,674. Analysts noted that a late rise in bonds, on speculation of an imminent upgrading of Italy's ratings by Moody's, the ratings agency, provided additional support.

Among blue chips, Fiat and Olivetti both climbed 2.9 per cent, while Pirelli was 2.4 per cent higher.

ZURICH moved ahead in thin trade, on firmer bonds and a growing conviction that the SMI index would hold above the 3,600 level. The weaker than expected US data on housing starts provided further support and the SMI finished 28.2 higher at 3,626.3.

Ciba and Sandoz, planning to become partners in Novartis later in the year, saw solid gains. Ciba rose SFr23 to SFr1,445, Sandoz was up SFr20 at SFr1,360 and Roche certificates gained SFr75 at SFr9,430.

Oerlikon-Bührle rose SFr3 at SFr133 after a number of positive brokers' reports.

Swissair fell SFr45 to SFr1,205 on widespread negative sentiment for airlines following Monday's newspaper report of an operating loss at Lufthansa for the first five months of the year. Disetronic, a medical technology company, which made its debut on the bourse, climbed as high as SFr2,250 before easing back to finish at SFr2,200, still at a sharp premium to the issue price of SFr1,350.

FRANKFURT saw a small, late upturn as bunds improved. The Dax index closed 6.10 higher at an Ibis-indicated 2,555.51. Turnover rose from DM7.2bn to DM7.6bn, restrained by Friday's "triple witching" expiry of DTB futures and options contracts.

Lufthansa, its prospects in question, dropped another DM6.50 to DM217.70 for a two-day loss of 7.2 per cent. Meanwhile, Adidas was enthusiastic again about the Euro 96 soccer tournament and the upcoming Olympics. The shares rose another DM6.80, or 5.6 per cent, to DM127.90.

More shopworn themes came in for tougher treatment. Deutsche Babcock, facing yet more losses, fell just 50 pfgs to DM98.50. But Philipp Holzmann, the construction group which had been seen as a merger partner for the ailing engineer, came back to reality, looked at its own prospects and tumbled DM21, or 4.4 per cent, to DM451.

AMSTERDAM saw a late upswing in the bond market, and financials were a strong feature as the AEX index rose 2.83 to 563.95: ABN Amro climbed Fl 2.50 to Fl 91.90, Fortis Amev Fl 1.80 to Fl 51 and ING by 60 cents to Fl 51.70.

However, there seemed to be more excitement about Baan, which announced a strategic partnership with Microsoft and Compaq Computer, both of the US. Shares in the software group climbed Fl3.30, or 5.6 per cent, to Fl 62.40.

MADRID, ever responsive to the day's international themes, picked on banks with some enthusiasm after a Standard & Poor's report said that consolidation and deregulation had made Spanish banks more efficient. The sector rose 1.65 per cent, with Santander Pta200, or 3.4 per cent, higher at Pta6,150 and BBV Pta110, or 2.2 per cent, ahead at Pta5,060.

The general index put on 1.25 at 371.92. The majority of blue chips were down on the day but Repsol, the oil company, closed Pta65 higher at Pta4,610.

BRUSSELS featured a 4.9 per cent rise in Barco, the electronics group, in unusually heavy volume of 57,200 shares, on the view that it had lagged behind the market.

Barco shares rose BFr230 to BFr4,930 as the Bel-20 index eased back 2.59 to 1,760.51.

Arbed declined BFr110 to BFr3,630 on news that Société Générale de Belgique, the holding company, was to halve its stake in the Luxembourg steelmaker. SGB, which said that it expected to raise around BFr5bn from the sale to support group activities, picked up BFr15 to BFr2,355.

Another steelmaker, Clabecq, remained in favour, adding to Monday's 21.3 per cent rise with another of BFr18 or 5 per cent at BFr340 on the rescue plan to save it from bankruptcy.

PARIS, short of news, managed to close off its lows. The CAC 40 index slipped 5.1 to 2,107.94, but turnover accelerated in late afternoon to total FFr4.36bn.

Moulinex, the household appliances maker, was suspended as it reported a FFr702m net loss, and talked of big job cuts and a capital increase. Credit Foncier de France, the troubled housing lender whose minority shareholders called into question its own restructuring plans, weakened FFr2.75, or 7.4 per cent, to FFr34.30.

MOSCOW's key indices soared again, the front runner this time being the Moscow Times index with a gain of 27.59, or 11.6 per cent, to 265.59, compared with 7.8 per cent for the AK&M composite and 5.2 per cent for the RTS-21.

The stimulus this time was the rapprochement between the President, Mr Boris Yeltsin, and the general, Alexander Lebed, who picked up 11m votes in Sunday's presidential elections. But once again, brokers said that western investors had refused to join in the buying.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Jun 18 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1682.89	1684.06	1684.02	1683.94	1683.67	1684.50	1684.48	1685.57
FT-SE Eurotrack 200	1724.29	1725.50	1725.85	1725.88	1725.66	1724.81	1726.42	1725.81

	Jun 17	Jun 14	Jun 13	Jun 12	Jun 11
FT-SE Eurotrack 100	1681.60	1682.14	1691.65	1694.47	1688.89
FT-SE Eurotrack 200	1724.19	1722.32	1731.23	1733.88	1728.72

Base value 1000 (26/10/90) Highs/day: 100 - 1688.34; 200 - 1726.42 Low/day: 100 - 1682.89 200 - 1722.48. † Partial.

EUROPEAN EQUITIES TURNOVER

Monthly total in local currencies (bn)

Bourse	Feb 1996	Mar 1996	Apr 1996	May 1996	US $bn
Belgium	129.54	155.80	126.48	108.46	3.45
Denmark	29.88	35.16	39.05	32.82	5.53
Finland	18.48	15.51	15.88	21.78	4.61
France	213.09	229.58	162.75	241.28	46.61
Germany	178.69	274.53	167.73	157.42	103.09
Italy	55,076	43,380	58,992	65,792	42.49
Netherlands	57.20	50.90	51.40	55.70	32.54
Norway	41.00	46.20	39.13	39.93	6.11
Spain	2,050.40	1,684.26	1,653.21	1,497.97	11.82
Sweden	158.40	144.78	190.06	161.00	23.92
Switzerland	33.42	57.93	44.50	38.49	30.74
UK	62.31	68.21	63.25	62.59	96.91

Volumes represent purchases and sales. Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

European bourse turnover in May rose by 1.5 per cent on April, calculated in D-Mark terms, and by 29.9 per cent on the corresponding month of 1995. The biggest increase came in France, says Mr James Cornish of NatWest Securities, which produces the figures. The French gain of 48.3 per cent compared with a 29.1 per cent fall in April, and coincided with a 1 per cent dip in the share price index as hopes of early interest rate cuts faded. For once, the bourse had profits to take after a good start to the year, and Mr Cornish suggests that domestic rather than international investors were responsible for most of the activity. Other hives of activity included Finland, up 37.2 per cent as share prices climbed by 6.5 per cent, and Italy, where the statistics indicated continued international buying as turnover rose 11.5 per cent on the month, and equity prices by 1.7 per cent on the accession of a financially orthodox government.

ASIA PACIFIC

Shenzhen B shares extend rally with 10.3% surge

The seemingly unstoppable **SHENZHEN** B index returned from Monday's holiday with a surge of 10.3 per cent, taking the advance since the start of trading last Thursday to 38 per cent.

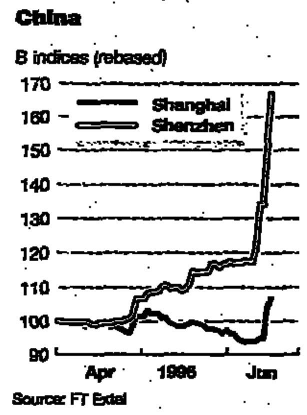
The hard currency B shares are officially available only to foreign investors, although market regulators are said to have turned a blind eye to fast growing purchases by mainland Chinese investors. The latest rise followed plans by the Guangdong government to extend preferential treatment to the province's top 70 companies, including several Shenzhen-listed B share issuers.

The B share index leapt 9.40 to 101.47, in turnover that expanded to HK$526m from Friday's HK$193m, while A shares advanced by 6.21, or 3.3 per cent, to 196.11.

The upbeat mood spilled over to **SHANGHAI** where the A and B indices closed sharply higher after hitting 1996 peaks in intra-day trading.

The B index rose 1.543, or 3 per cent, to 53.788, while A shares finished 43.975, or 5.6 per cent, up at 828.475.

China



Source: FT Extel

Tokyo

A moderate rise on buying of high-tech stocks and big blue chips took the Nikkei average to a new four-year high, *writes Emiko Terazono in Tokyo*.

The 225 index gained 87.02 at 22,332.40, after touching 22,364.27 and 22,429.56. Volume was 379m shares, against 408m. The Topix index of all first section stocks rose 5.95 to 1,698.16 and the Nikkei 300 by 1.17 to 314.78. Gainers led losers by 635 to 399, with 188 issues unchanged.

Traders said the Nikkei 225 could not rise above 22,500 due to profit-taking and position adjustment. On the Topix, the April high of 1,718 appeared to be a technical barrier.

In London the ISE/Nikkei 50 index eased 0.35 to 1,503.12.

Sumitomo, which fell by its daily limit on Monday, mourning $1.8bn in losses from illicit copper deals, recovered Y20 to Y1,030 as bargain hunting countered selling orders. It was the most active issue of the day. Mining stocks, however, continued to be sold and Sumitomo Metal Mining declined Y17 to Y960.

Japan Tobacco jumped Y24,000 to Y865,000 on active buying by Nomura Securities and Goldman Sachs, the two brokers leading this week's offer of the government's second tranche of shares in the company. The offer was priced at Y815,000 a share on Monday.

Mitsubishi Oil rose Y1 to Y946 on its announcement that it will start commercial production of crude oil at its offshore field in Vietnam.

Takara Shuzo, the spirit distiller, moved ahead Y60 to Y1,150. Investors were encouraged by reports that the company had discovered an anti-cancer substance in seaweed.

In Osaka, the OSE average firmed 20.49 to 23,515.63 in volume of 35m shares.

Roundup

Industrials firmed throughout the session in **SYDNEY**, and resource issues built on early cautious gains, encouraged by the stable copper price in London on Monday.

The All Ordinaries index closed 20.8 ahead at 2,228.3, and turnover was high for a mid-week session at A$752m.

In resource stocks, CRA rallied 9 cents to A$19.64 and WMC by 18 cents to A$9.05. BHP lost a further 6 cents to A$18.26; the market leader said on Monday that it saw margins on its steel business remaining under pressure.

WELLINGTON brokers said volume was still unconvincing, but gains in forestry stocks and utilities lifted the NZSE-40 index 17.64 to 2,089.82. Turnover was NZ$46m. Bay of Plenty Electricity gained 20 cents at NZ$7.30 amid continuing speculation that its major shareholder, Fletcher Challenge, might sell its stake to an offshore investor.

JAKARTA's composite index retreated 2.50 to 588.23, but the market had its winners. The shipper Berlian Laju Tanker climbed Rp125 to Rp1,475 on dividend considerations, and on a possible decrease in its corporate tax burden.

In properties, the government announcement that foreigners could own residential properties took the sector index up by 1.6 per cent.

SEOUL turned higher after the falls of the last three sessions as talk about an early expansion of foreign stock ownership limit helped to boost the market. The composite index rose 5.88 to 862.31.

HONG KONG welcomed the resolution of the Sino-US dispute over copyright protection, and the Hang Seng index moved up 37.79 to 10,952.78 in subdued turnover of HK$3.2bn.

Sun Hung Kai Properties jumped HK$1.50 to HK$78.50, and Citic Pacific rose HK$1.10 to HK$31.50, on speculation about new covered warrants ahead of the expiry of existing warrants later this month.

KARACHI was spurred higher on renewed demand for energy and communications stocks on the first day of the new account. The KSE 100 index put on 16.27 at 1,673.05.

COLOMBO was weak on a widespread perception that the all-share index was heading below the 600-point level. The index lost 6.12 at 614.02.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JUNE 17 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 14 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	199.93	-0.4	191.80	137.55	157.75	167.93	-0.5	4.39	200.81	193.69	138.01	158.99	168.78	212.18	183.30	164.59
Austria (25)	192.03	-0.4	184.23	132.12	151.52	151.45	-0.8	1.88	192.84	186.01	132.53	152.68	152.61	199.28	168.11	191.26
Belgium (27)	213.65	0.3	204.97	146.99	168.57	164.53	0.0	4.05	212.94	205.39	146.34	168.59	164.53	215.81	186.06	192.06
Brazil (28)	171.74	2.7	164.77	118.16	135.51	316.51	2.7	2.09	167.19	161.27	114.91	132.37	308.12	171.74	123.97	134.55
Canada (99)	159.29	0.4	152.82	109.60	125.69	157.62	0.4	2.41	158.62	153.00	109.01	125.58	157.04	165.12	134.14	142.60
Denmark (30)	297.77	0.0	285.68	204.87	234.95	236.99	-0.3	1.90	297.75	287.20	204.63	235.74	237.82	305.17	275.65	276.85
Finland (23)	192.89	-0.3	185.05	132.71	152.20	188.51	-0.9	2.65	193.42	186.57	132.93	153.14	190.18	276.11	171.73	220.04
France (97)	196.76	0.4	188.77	135.38	155.25	158.90	0.1	3.02	195.92	188.98	134.65	155.12	158.77	198.39	167.70	182.68
Germany (60)	170.50	0.2	163.58	117.31	134.53	134.53	-0.1	1.85	170.09	164.06	116.89	134.66	134.66	174.36	155.66	157.55
Hong Kong (59)	424.37	0.0	407.13	291.98	334.84	421.81	-0.1	3.38	424.53	409.49	291.76	336.11	422.05	451.19	348.81	364.05
Ireland (16)	290.11	0.5	278.33	199.60	228.91	257.04	-0.1	3.34	288.71	278.48	198.42	228.58	257.26	290.11	231.09	231.09
Italy (59)	81.88	1.3	78.55	56.33	64.60	94.10	0.8	2.33	80.81	77.95	55.54	63.98	93.34	84.53	67.22	72.69
Japan (481)	155.97	-0.7	149.64	107.31	123.07	107.31	-0.6	0.71	157.02	151.46	107.91	124.32	107.91	164.68	137.75	144.28
Malaysia (107)	551.34	0.0	528.94	379.33	435.02	529.63	0.0	1.70	551.27	531.73	378.87	436.46	529.72	585.08	425.77	548.24
Mexico (18)	1227.97	0.8	1178.09	844.87	968.91	10181.59	0.6	1.39	1218.15	1174.98	837.19	964.45	10118.80	1325.65	791.99	987.52
Netherland (19)	297.76	0.7	285.66	204.87	234.94	231.02	0.3	3.12	295.71	285.23	203.23	234.12	230.21	299.69	245.79	248.11
New Zealand (15)	78.22	0.0	75.04	53.82	61.72	61.51	-0.2	4.41	78.21	75.44	53.75	61.93	61.65	85.49	75.94	79.65
Norway (35)	256.56	0.4	246.14	176.52	202.44	226.83	0.2	2.00	255.62	246.56	175.68	202.38	226.44	256.56	222.24	228.73
Singapore (44)	414.11	-0.6	397.29	284.92	326.75	268.75	-0.6	1.41	416.50	401.75	286.25	329.76	270.44	465.21	355.81	392.17
South Africa (45)	359.83	0.1	345.21	247.57	283.92	342.12	0.0	2.10	359.46	346.72	247.04	284.60	342.12	437.76	339.37	341.06
Spain (37)	181.90	0.1	174.52	125.15	143.53	176.72	-0.3	3.15	181.76	175.32	124.92	143.91	177.25	181.90	145.15	146.29
Sweden (48)	354.62	-0.1	340.21	243.99	279.81	349.74	-0.4	2.43	354.79	342.22	243.83	280.90	351.13	360.77	262.18	262.18
Switzerland (38)	236.17	0.2	226.57	162.49	186.34	182.99	0.1	1.62	235.65	227.30	161.95	186.57	182.75	252.34	191.24	198.47
Thailand (46)	167.87	-0.6	161.05	115.50	132.46	165.11	-0.5	2.00	168.67	152.69	116.08	133.70	166.02	193.95	148.74	171.17
United Kingdom (200)	235.51	0.7	225.94	162.03	185.82	225.94	0.2	4.12	233.82	225.54	160.70	185.12	225.54	237.43	210.29	219.07
USA (627)	271.08	-0.1	260.07	186.51	213.89	271.08	-0.1	2.18	271.46	261.84	186.56	214.92	271.46	276.47	220.54	220.54
Americas (772)	247.51	-0.1	237.46	170.29	195.29	208.08	-0.1	2.18	247.72	238.95	170.25	196.13	208.27	252.43	201.99	201.99
Europe (714)	211.07	0.5	202.49	145.22	166.54	184.65	0.1	3.05	210.03	202.59	144.35	166.29	184.48	211.35	187.21	188.96
Nordic (136)	303.69	0.0	291.35	208.94	239.62	263.54	-0.4	2.33	303.75	292.99	208.76	240.49	264.56	308.61	253.68	253.68
Pacific Basin (831)	168.36	-0.6	161.52	115.63	132.84	118.04	-0.5	1.17	169.34	163.34	116.38	134.07	118.63	177.01	148.86	154.73
Euro-Pacific (1545)	186.05	-0.1	178.49	128.00	146.80	143.29	-0.2	2.06	186.19	179.59	127.86	147.41	143.60	190.57	166.51	168.90
North America (726)	264.18	-0.1	253.45	181.76	208.44	263.49	-0.1	2.19	264.49	255.12	181.78	209.41	263.81	269.52	215.71	215.71
Europe Ex. UK (514)	192.60	0.4	184.77	132.51	151.96	159.88	0.1	2.47	191.89	185.09	131.88	151.92	159.80	192.67	168.76	168.76
Pacific Ex. Japan (350)	284.44	-0.2	272.89	195.70	224.43	245.47	-0.2	3.11	285.03	274.93	195.89	225.66	246.06	296.88	243.59	254.17
World Ex. US (1735)	187.19	0.0	179.58	128.79	147.70	147.66	-0.2	2.06	187.25	180.61	128.69	148.25	147.92	191.55	167.36	169.69
World Ex. UK (2162)	210.84	-0.2	202.27	145.06	166.36	178.78	-0.2	1.92	211.17	203.68	145.13	167.19	179.12	213.05	181.85	181.87
World Ex. Japan (1881)	244.67	0.1	234.73	168.34	193.05	231.84	0.0	2.53	244.43	235.77	167.99	193.52	231.72	247.55	208.28	208.28
The World Index (2362)	213.06	-0.1	204.40	146.59	168.11	183.19	-0.2	2.12	213.22	205.67	146.54	168.82	183.48	214.70	184.49	185.10

Markets closed 17/6/96: Hong Kong and South Africa. Latest prices were unavailable for this edition.

PRIVATE BANKING

Institutional giants mine millionaires

Some 2.6m people worldwide have liquid assets of over $1m. They represent a growth market, writes George Graham

There are few segments of the financial services industry whose participants confidently predict growth rates of 10-20 per cent for the next five years. But that is the prognosis for private banking.

Almost 70 per cent of private banking chief executives surveyed by the Price Waterhouse consultancy for its annual survey expected that their revenues would grow by 10 per cent or more annually in coming years.

Demographics and geography are driving forces in the development of the market. Inheritances from the golden years of the 1950s and 1960s and wealth creation by the entrepreneurs of the 1980s and 1990s have continued to fuel demand for asset management services in traditional markets such as the US, Europe and the Middle East. Economic expansion, meanwhile, has produced even faster wealth creation in Latin America and the Far East.

Chase Manhattan Private Bank, whose estimates, though approximate, have now become widely accepted in the private banking industry, calculates that around 2.6m people worldwide have liquid assets of $1m or more.

Most of this $9,600bn global wealth market is invested onshore, in the client's home country, with the largest share held by the $3,500bn US private banking sector.

But an estimated $2,100bn is invested offshore, most of it heading to the traditional European private banking centres of Switzerland, Luxembourg and London, with its associated tax havens in the Channel Islands.

But the growth of Asian wealth has brought other financial centres into prominence.

"Singapore is starting to play a major role and basically to become the Switzerland of Asia," says Mr Georges Vergnion, who heads the Chase Manhattan private banking operation in Europe.

For all the attractions of the market, it is not an easy one to serve. Private banks, many of them family-owned or controlled, traditionally provided high levels of personal service to their customers, but remained untouched by modern management techniques.

Now poor performers are under pressure. A consolidation of the private banking sector is already under way.

"This industry will shake out in three years. It's already starting," says Mr Ian Woodhouse, a Price Waterhouse partner.

Inadequate management often meant that in the past investment performance was often not merely stodgy but wildly erratic, flagrantly out of alignment with the client's willingness to accept risk.

Even where banks measured the performance of model portfolios against market indices, they often chose inappropriate benchmarks. Moreover, individual portfolios varied horrendously from these benchmarks, though clients often did not realise because of the opacity of investment reports.

"There is a great deal of apathy and ignorance. People don't understand how poorly their portfolios are performing," says Mr Anthony Marshall, chief operating officer of the Private Bank and Trust Company in London.

Some clients are now asking for better and more disciplined investment.

"The element of performance, though still second to service, has become quite important," says Mr Philip Darwall-Smith, who heads the private banking operations of Royal Bank of Canada in London.

Inadequate management often meant that private banks had little idea of where their costs and revenues came from, with the result that a small percentage of profitable clients ended up subsidising the rest.

A favourite rule of thumb in private banking, as in many other businesses, is that 20 per cent of the customers generate 80 per cent of the profits.

But Mr Albéric Braas, a partner with the Mitchell Madison consultancy, says this 20:80 rule usually applies to revenues: in terms of profits the top 20 per cent may generate two or three times the profits of the whole business, while on the rest of the customer base the bank breaks even or makes an actual loss.

"When you look at customer profitability it is not the 20:80 rule, it is the 20:220 rule," he says.

At the same time, private banking has seen an influx of competing banks, lured by the high returns available on a relatively small capital base. Price is now reckoned to be the area where competition is most significant, according to the Price Waterhouse private banking survey. Almost all private banks now publish a list of fees and charges.

To face up to these growing profitability pressures, a growing number of private banks has embarked on a serious analysis of costs and revenues. With a better understanding of profitability, banks have been able to rationalise the levels of service they provide to each segment of their customer base – individualised portfolio management for the most profitable customers, and managed funds for the less profitable, for example.

Segmentation is usually by wealth level. There is a strong correlation between profitability and the size of a client's portfolio. But banks have also sought to segment by geography. Coutts & Co in the UK or Harris Bankcorp in the US, among others, have tended to focus on certain professions. Some, such as Detroit-based Comerica, have segmented their private banking services in line with investment goals, dividing their customers into categories such as "wealth accumulators" and "wealth managers".

Private banks have also taken a more active approach to marketing, once regarded as rather undignified, in an effort not only to win new customers but also a greater share of the wealth of existing customers.

The need for better customer segmentation holds true all the way up and down the private banking scale.

An exclusive bank catering for the wealthy entrepreneur, such as Chase Manhattan in Switzerland, finds, for example, that a customer with $20m in assets is likely to use only two banks, while a customer with only $5m is more likely to spread his assets among four or five institutions.

Lloyds Bank in the UK is essentially applying the same analysis when it offers customers with more than £75,000 in assets a financial management service differentiated from the more transactional services of cheques, debits and cash withdrawals offered to its ordinary customers.

There is a danger that an obsession with mechanistic customer segmentation can lead a bank to lose sight of the essence of private banking, which is personally tailored service. That form of relationship is something which the smaller family-owned banks believe they can do better than the large institutions.

"People go to a private bank to have their affairs managed. It's something broader than ringing up a 22-year-old stockbroker and asking him what stock you should buy," says Mr William Salomon, whose family controls Rea Brothers, a London private bank.

But improved information technology, an area in which many private banks have been investing heavily, can provide the sort of detailed client profile that may to a great extent be able to substitute for the old-fashioned personal relationship.

By increasing staff specialisation between the investment and client relationship functions, some private banks have found that they can not only improve profitability but can also free bankers to spend more time with customers.

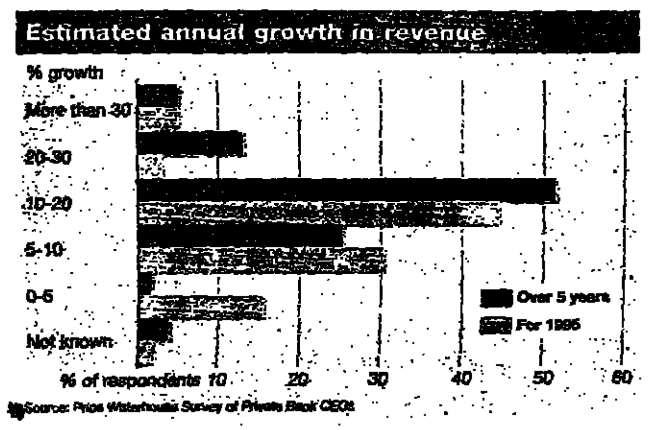
At the same time, they have found that the disciplined application of modern portfolio theory can produce better and less volatile investment returns for customers.

The private banking industry remains fragmented. Large groups in the US onshore private banking market, such as Mellon Private Asset Management or JP Morgan, probably control no more than 1.5 per cent of the market apiece. In the world offshore market, the five largest institutions Union Bank of Switzerland, Credit Suisse, Swiss Bank Corporation, Chase and Citibank control an estimated one-third of the market, but the remainder is scattered among a host of smaller players with no more than $20bn or $30bn under management.

The squeeze on profitability is now bringing a wave of consolidation that many industry observers expect to gather pace. With it will come growing pressures, particularly on the mid-sized banks.

"When you have an industry consolidating, you get a few giants and a lot of niche players. It's a pattern I think you are going to see in private banking," concludes Mr Braas.

Estimated annual growth in revenue



Source: Price Waterhouse Survey of Private Bank CEOs

IN THIS SURVEY

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■ **Tax planning:** by Adam Courtenay

Avoidance without evasion

Anglo-Saxon banks champion trusts as vehicles for shielding wealth from tax

Private bankers tend to think of themselves as facilitators rather than brokers, as administrators rather than advisers. Nowhere is this more apparent than in tax planning advice, which should not be confused with tax avoidance. All private bankers stress that the advice should come from a client's accountant, lawyer or financial adviser. All they do is carry out the adviser's suggestions, with no strings attached.

This stance is sometimes disingenuous. Throughout 1992 and 1993 German banks in Luxembourg actively solicited funds from German investors to avoid a withholding tax on interest income. The ploy worked – of the 32 new banks incorporated in Luxembourg n 1992, 23 were German. Luxembourg banks reported a 50 per cent increase in profits for the first half of 1993.

Some sources say that if German investors had used more sophisticated tax planning techniques, such as trust and company overlay, their tax planning would have been outside the scope of German tax and they would not have needed to use Luxembourg-based banks.

Trusts interwoven with companies are the central tools of succession and estate planning. They are widely employed by Anglo-Saxon private banks, some of whom see continental Europe as a promising new market.

Kleinwort Benson, for example, is now trying to actively exploit its link with Dresdner Bank to supply continental investors with effective tax planning techniques. It is potentially a huge market for the bank, but there has been considerable resistance to its overtures from German tax advisers and lawyers who cannot fathom the concept of "giving away" assets by placing them in trusts.

Mr Nigel Robins, a director of Kleinwort Benson Trustees in Guernsey, says France, Italy and Germany have all accepted the concept of trusts, but that practical obstacles still exist. "Italy has just set up its first statutory domestic trust. In practice the regulatory authorities don't understand them or don't want to. While the judiciary might accept them, the tax authorities do not."

Unlike the UK, Germany taxes assets on a receipt rather than a gift basis. Giving assets away is not a chargeable event in Germany, as the receiver pays the tax. When the receiver is an offshore trust, not resident in Germany, the German could effectively send the gift to himself, offshore.

"It's very tax effective, cutting inheritance tax and reducing the estate for gift purposes," says Mr Robins.

Latin American and European citizens often wish to preserve assets in ways that would be sheltered from creditors or "forced heirship" requirements, which stipulate a strict division of assets when a person dies.

A classic case is when a business is sold and the owner wishes to move to another country. If, say, a Dane wanted to move to Portugal after selling his company, he could set up a trust to protect the proceeds from wealth taxes which cover all residents of that country, and from Denmark's forced heirship regulations which would apply after he died.

Robins: practical obstacles to the use of trusts in continental Europe

"The assets of the sale of that business could be put into a trust structure in a common law jurisdiction such as the Caymans, Gibraltar or Jersey," says Mr Peter Montegriffo of JA Hassan & Partners in Gibraltar. "This would effectively give the client total discretion as to the disposition of the assets."

Another service offered by private banks is making alternative tax residence arrangements. There are a number of countries which try to attract investors by providing a kind of immigration escape route. The typical customer fears instability in their homeland.

Nowhere is the issue of alternative "tax residence" more acute than in Hong Kong in the lead up to 1997, when the colony reverts to Chinese rule. Ms Agnes Auyeung, in charge of trust business at Chase Manhattan in Hong Kong, says Asian clients with US properties are able to avoid US estate duties as high as 55 per cent using an offshore company. The company holds the shares in the residential property thus sheltering the beneficiary who will be a non-US national.

One of Ms Auyeung's clients is looking to purchase a £4m house in London. He will be using a company registered in the British Virgin Isles overlayed by a trust. Because a company never "dies" it can shelter this client from inheritance taxes and death duties. The trust will later pass on the assets to children without the need for probate.

Most of the wave of immigration of Hong Kong Chinese to Canada is tax-inspired. "By using a trust for the benefit of his family before a client emigrates to Canada, he can enjoy a five-year income tax holiday," says Ms Auyeung. "Without a properly structured trust he would be subject to Canadian income tax on his worldwide income whether on income earned on assets in Hong Kong or in Canada."

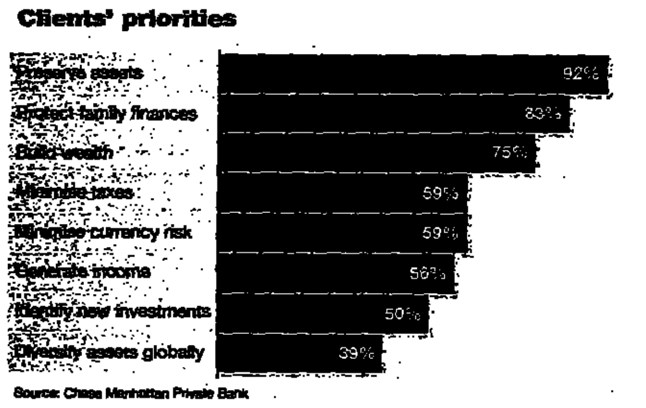
Private bankers say the use of offshore trusts for UK residents has virtually dried up. Since 1991 the UK's Inland Revenue has been aware of all tax loopholes employed by offshore financial advisers and has made sure all trusts are registered and that all gains within it are accounted for. "There's not a lot you can do for people resident and domiciled in the UK," confirms Mr Robins.

Nowhere is the controversy of tax avoidance more acute than in the use of offshore companies. Many Caribbean and South Pacific tax havens offer cut price international business companies (IBCs). Wholesale incorporation agents shift offshore company applications at the rate of several thousand per week, sharing them out across the world's offshore centres. About 75 per cent of the British Virgin Islands' 100,000 annual incorporations originate from the Far East, notably Hong Kong.

IBCs are attractive to people seeking to cut withholding taxes, or taxes on dividends: companies involved in world trade; and families setting aside money for descendants.

Some Caribbean IBCs amount to little more than a number and a name in a directory. The beneficiaries are often unknown, the shareholders elusive, and the directors are lawyers living in the place of registration and appointed by the clients' own lawyers. In other words, everybody – the client, the director and the shareholders – exist at one remove from each other.

Clients' priorities



■ **Retail banks:** by George Graham

Mass caterers woo the few

Big institutions are muscling into a formerly exclusive preserve in search of new revenue

Traditional private banks have focused mostly on international money, invested outside its country of origin. But increasingly, bankers around the world are taking steps to provide private banking services to domestic wealth.

Retail banks, more used to managing the accounts of a mass clientele, may still only have scratched the surface of a potentially lucrative onshore private banking market.

Mr Michael Maslinski, a consultant who worked for 21 years with Coutts & Co, the private banking subsidiary of the UK's National Westminster Bank, argues that domestic private banking could become one of the most important growth sectors in the financial services industry.

"I think it is not inconceivable that in ten years' time, revenues from domestic private banking in the UK will be ten times what they are today, or that a typical high street bank might be deriving 10-20 per cent of its total domestic profits from private banking and its offshoots," Mr Maslinski says.

In the UK Coutts remains the benchmark. Though part of the NatWest group it has retained a patina of exclusiveness – reinforced by frock coats and leather cheque book covers – that contributes to a powerful brand name.

But Coutts's full integration into NatWest is relatively recent. Where it used to operate with considerable autonomy, often duplicating the banking services of its parent, it is now positioned carefully as one of the group's core growth areas. Wealthy clients are encouraged to migrate from NatWest branches to Coutts.

Though competitors sometimes decry it as "red carpet retail," Coutts has also developed its own range of asset management services.

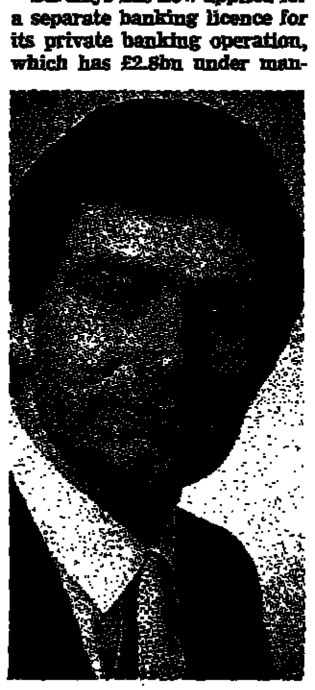
Beginning with Lloyds Bank in 1989, the other high street banks have moved fast to expand their own private banking operations. The emphasis, however, has been much less on banking services than on private client asset management.

Lloyds has pitched its services much lower on the wealth scale than has been traditional in private banking. It targets customers with more than £75,000 in disposable assets – Coutts, though it has no formal cut-off, would typically seek double that – and now manages almost £6bn in client assets.

Midland Bank, a subsidiary of the HSBC group, has followed the Lloyds model closely, though its cut-off is slightly higher at £100,000.

Barclays, has adopted a very different approach. The bank offers a service it calls Premier Banking to wealthier customers, but reserves the title of private banking for a de luxe West End operation aimed at the seriously rich.

Barclays has now applied for a separate banking licence for its private banking operation, which has £2.8bn under management (see page 6).



Woodhouse: a family image is a valuable asset for a private bank

It is scarcely surprising that the high street banks should be making strenuous efforts to develop private banking. The rapid spread of bank accounts since the 1960s, as monthly salary transfers have replaced weekly cash wages, has left the banks with a mass customer base and very little differentiation in the services provided to their most and least profitable customers. At the same time banks have discovered what a tiny share of their customers' overall wealth is placed under their management.

But the marriage of high street and private banking is not always easy.

Issues to be resolved start with names. Some banks choose to operate private banking services under a separate brand, as NatWest does with Coutts, or Credit Suisse to some extent with Leu. But Lloyds, after long reflection, chose to use the same name.

A different name may offer more cachet, and can be useful for marketing to new customers. But retail banks that are mostly seeking to provide a differentiated service to existing customers have generally found it works better to use the same name.

Banks must then resolve difficult questions over whether the private bank should share back office functions or career structures with the main branch network.

"If you try to set up a private bank with clearing bank staff, clearing bank career structures and clearing bank remuneration, you will get something not very different from a clearing bank," warns Mr Maslinski.

They must also settle the rivalry between the private bank and the main bank's branch managers.

"Branch managers want to hold on to their wealthy customers as much as they can, because they subsidise the rest of the branch network," says Mr Albéric Braas, a partner with the Mitchell Madison consultancy.

Midland customers with assets above the bank's cut-off for referral to its private banking service, for example, sometimes find themselves advised by their manager that they will simply end up paying higher fees if they transfer, and would do better to stay with their branch.

Many of the traditional private bankers scoff at the idea that a retail banking culture can offer the sort of client-oriented service which they regard as their distinguishing mark.

"In the old days a private banker was an individual of means, probably of taste; somebody who knew about music and maths, not just somebody who had passed an exam for the SFA," says Mr William Salomon, deputy chairman of Rea Brothers, a family-controlled private bank in London.

"The clearing banks perceive that there is a market for people who need something more than credit scoring, but they are still not providing a service, they are trying to sell you something," he adds.

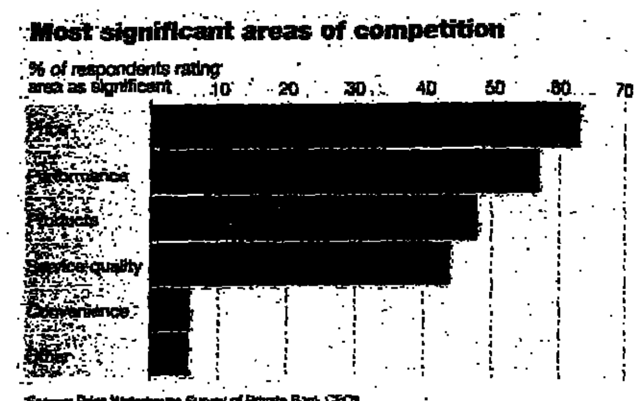
There is, in fact, a particular niche which the big retail banks cannot fill among customers who want a family-owned bank such as Rea Brothers or Leopold Joseph.

Some even want the ultimate in private banking: the unlimited liability partnership, a model that survives in the UK only at Hoare & Co, which was founded in 1672, even before Coutts. In Switzerland this remains the only accepted definition of private banking.

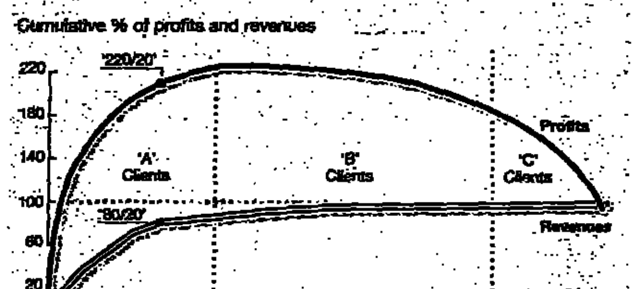
"There is a certain client segment that wants the image of the family-owned partnership bank, that says: 'If you're managing my wealth, it's very important to me that your personal capital is at risk'" comments Mr Ian Woodhouse, a partner in the private banking practice of consultants Price Waterhouse.

That segment is, however, a small one, and it will not prevent the high street banks from continuing to target the wealthier sections of their own clientele with higher value-added services which, whatever the financial cut-off point applied, amount to private banking.

Most significant areas of competition



Typical client profitability



PROFILE Robert Fleming

New club for high-fliers

Banks have identified a group of potential clients who occupy the middle ground – highly-salaried individuals with needs well in excess of basic banking but without, as yet, the permanent assets which require high level personal relationships. If the very rich can be described as the "jet set", then the middle tier of high-fliers expect "club class" banking.

As a long-established merchant bank Robert Fleming has always offered jet set private banking. Over the past decade it has entered the club class area too.

High earners tend not to be tied to any one jurisdiction or currency; they need multi-currency accounts and access to world money markets. Flemings has always had an orientation towards international banking and investment. It set up its first international investment trusts over 150 years ago and it maintains a strong link with Asia through its Jardine Fleming joint venture in Hong Kong.

Through banks in both the Isle of Man and Jersey, Flemings Offshore offers a multi-currency bank account with a linked gold Visa card. High-fliers typically need access to substantial credit to finance their life styles: this account meets that need.

Clients who place more than £10,000 with Flemings Offshore can also use the services of the bank's investment managers. And it is here that the products of its subsidiary, unit trust group Save & Prosper, come in useful. Club class clients are looking for customised services but they are comfortable with packaged investment products provided they are tightly focused.

As Mr Nick Owen, managing director of Flemings Offshore, points out: "It is better to invest in a fund which gets a lot of attention [from dedicated full-time fund managers] than one which is only reviewed occasionally. That suggests packaged funds rather than individual investment portfolios for investment purposes."

The customising is achieved by the client personally choosing a selection of narrowly-focused funds under an umbrella fund known as the Fleming Flagship Fund. Launched in 1988, it has $2.8bn under management, divided between 23 sub-funds that cover virtually all of the world's equity markets as well as sterling, D-marks and international bonds.

The funds are all tailored as Ucits registered in Luxembourg and, with the exception of the infant India Fund, (which is still gaining international authorisations) are recognised throughout Europe.

Although the entry level to these funds is pitched relatively low, Mr Owen is at pains to point out that management charges and thus the cost to the investor, is materially lower if more than £100,000 is placed under management.

Mr Owen concedes that some high fliers are likely to feel uncomfortable with the risk attached to equities, so the Flagship Fund in 1992 spawned Flagship Series II, the umbrella fund for five money market funds. These aim to match short-term interest rates in sterling, dollars, D-marks, French francs or lira.

The essential difference between the middle and top tier of private banking is that services are packaged in the former case. The bank offers them for sale; the client chooses from the selection on offer rather than making his wishes known to a personal banker who must scour world markets to find specific, matching investments.

Middle-tier private banking is also limited in the number of inclusive services on offer. Flemings can introduce clients to accountants and tax specialists – but independently of the banking service. Similarly, it has a trustee service in Jersey, but access to it carries supplementary costs.

Christine Moir

■ **Asset management:** by Philip Coggan

Managers are discreet about performance

The secrecy cloaking banks' client bases extends to investment returns

Asset management is one of the key services that private banks can offer when clients' initial excitement at receiving gold cards and personal attention begins to fade.

Wealthy clients need keep only a small proportion of their portfolios in cash and many will not need to borrow money. So the bulk of their wealth is likely to be in bonds and equities; and the best hope for the banks for income will probably come from the annual management fee which, markets permitting, will rise in line with the client's wealth.

Discretionary portfolio management is seen as the most important service that the industry can offer, according to a survey of European private banks by Price Waterhouse. The bankers questioned think it will become increasingly important with 86 per cent citing it as likely to be a key service in five years' time. They also recognise the penalties for failure in this area; inadequate investment performance is seen as the key reason why clients leave a bank.

Indeed, the market is becoming ever more competitive. On top of their traditional rivalry with domestic stockbroking firms, private client managers face the challenge of the global collective fund industry. Onshore and offshore mutual funds can offer transparent fee structures and, perhaps even more importantly, independently-verified performance records. For the extremely wealthy, some hedge funds can demonstrate a record of remarkably high returns.

Performance is one of the key issues facing the asset management arms of private banks. No longer are banks able to survive on "old money"; families who have been clients of the organisation for ages and are unlikely to move elsewhere. "Clients are sophisticated and have more than one account, and if we are not able to provide good performance, that means losing the client," says Mr Fernand Koch, a partner at Lombard Odier in Zurich.

Mr David Maguire, head of marketing and sales at Lloyds Private Banking, says: "Ten years ago, rolling out the red carpet was the issue. Now it's much more about delivering something of substance."

This is particularly the case in Switzerland, which seemed to dominate the market for international clients for many years, thanks to its banks' reputation for security and discretion. But clients may have had to pay a price for their privacy in the form of poor returns.

Analysts say the Swiss banks have faced increased competition in recent years, which may have caused them to lose market share. They add that until recently customers were not receiving sufficient return to compensate them for the risks being taken on their behalf. But they have adopted the precepts of modern portfolio theory to boost performance.

"Swiss banks have always said preservation of assets is an important part of the strategy but that should not exclude the aim of good risk-adjusted performance," says Mr Koch. "We know our competitors are not only across the street but in London, Frankfurt or anywhere."

But how does a private bank prove its expertise, apart from making vague generalisations about its supposedly superior performance? Attempts to measure performance have traditionally foundered on bankers' insistence – partly based on common sense, partly on self-interest – that each client is different and it is accordingly difficult to produce a "representative" performance figure.

The WM company, best known for its performance measurement of pension funds, is now moving into the area. It has already started a UK measurement service for the discretionary funds of private clients. It hopes to start an offshore service later in the year.

"Measuring private client portfolios is just the same as measuring any other type of portfolio," says Mr Peter Warrington, WM's marketing director. "The progressive managers – those who have a good story to tell – will welcome the chance to shout about it."

WM requires managers to submit all their clients' portfolios for measurement, which can be a daunting task for some of the bigger groups. An alternative approach can be for managers to produce their own "model portfolios" indicating the kind of performance they have delivered. The models can vary widely depending on client preferences.

According to Mr Warwick Newbury, head of private banking at Coutts, for clients, good performance "doesn't necessarily mean the greatest possible capital gain. Some will equate reward with risk. We spend a lot of time working out the risk profile most appropriate to their needs."

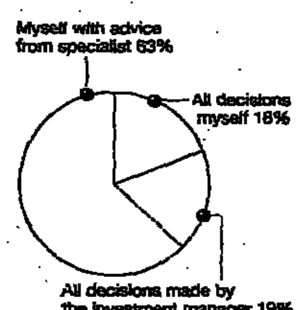
"Continental European clients with 40 per cent in equities will feel they have an aggressive portfolio," says Lombard Odier's Mr Koch. "But suggest such a level to Anglo-Saxon clients and they will laugh. For them, a conservative equity allocation is 60 per cent."

In the UK portfolios can be judged against a special private client benchmark, produced by Cantrade Investment Management, which is based on a portfolio of 50 per cent UK equities, 20 per cent overseas equities and a balance of 30 per cent in index-linked gilts.

As well as emphasising performance, clients are also interested in fees. The wealthy are well aware that many banks are eager to attract their custom and Coutts' Mr Newbury says the market has become a lot more competitive in this area. "We dropped our annual management fee from 1.25 to 1 per cent 18 months ago as a result," he says.

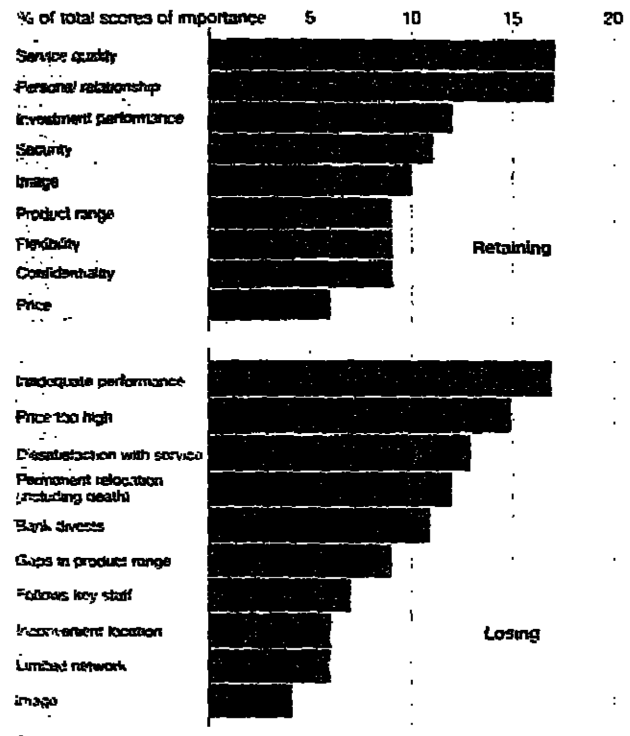
Performance-related fees, popular in the hedge fund industry, are not yet commonplace and bankers doubt they will take over the market soon. "If you perform badly, you will lose the client and that is penalty enough" says one.

Client decision making



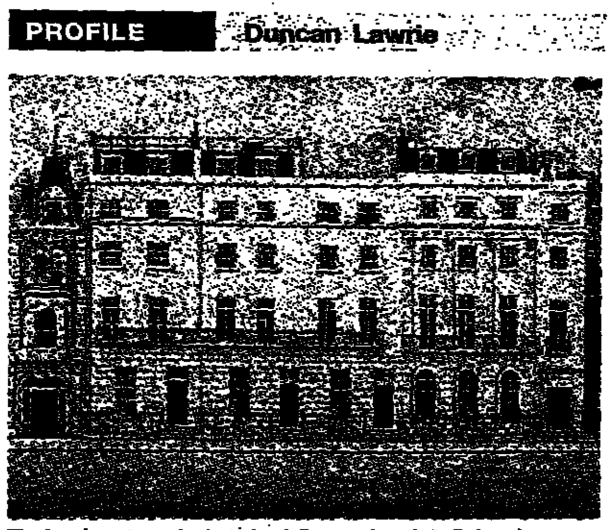
Source: Chase Manhattan Private Bank

Key factors in retaining/losing clients



Source: Price Waterhouse Survey of Private Bank CEOs

PROFILE **Duncan Lawrie**



The headquarters of private bank Duncan Lawrie in Belgravia

Bank with no deposits

At Christmas clients of London private bankers Duncan Lawrie receive a present – a box of tea. Not just ordinary tea: it is Darjeeling, often described as the "Champagne of teas."

The gift serves not only a seasonal purpose, it is a reminder of the antecedents of the bank's founders: two Scotsmen, Messrs Duncan and Lawrie of London and Calcutta, who made their fortunes managing tea estates in the last century.

The tea is intended to cement the bank's long-term relationship with its clients. The bank sees its role as the steady and safe enhancement of clients' wealth. It is ultimately controlled by a charitable trust whose income is utilised for charitable, educational and humanitarian development mainly in Africa and Asia.

Director Mr Robert Way, who is responsible for banking and marketing, says that long-term relationships link the bank to its staff as well as to its clients. He says that in contrast private banking arms of major banks are obliged to share staff with their "bigger brethren".

"We can take a long-term view," he says, "that is our best competitive edge. We don't have to do things that are risky to beef up our profit line."

Mr Way adds. "If we lend money it is from our own capital and reserves. That makes our balance sheet look a bit strange compared to our competitors. The advantage is that the bank can return clients' money at any time. We are stewards of clients' assets."

To this end the bank claims to be unique in not holding any of its clients funds on deposit. Duncan Lawrie's founding documents require money deposited in the ordinary course of banking to be placed with "good quality banks". This provision was a reaction to the banking crisis in the early 1970s when smaller banks fell victim to a run on deposits.

Then a new bank, Duncan Lawrie survived the crisis. However, the institution resolved to protect itself and depositors from the likelihood of a repetition of a loss of confidence in smaller banks.

Ironically, according to Mr Nicholas Grant, the bank's chairman, writing in an article in the bank's in-house journal, when the bank was founded in 1971, it was advised by the Bank of England that registration (then with the Department of Trade and Industry) might prove a disadvantage as such banks were "not always well regarded in the City".

Today Duncan Lawrie lists no less than eight regulators with which it is registered in the three jurisdictions in which it operates – the UK, the Isle of Man and Cyprus.

Duncan Lawrie's clients are not necessarily the "super wealthy" and include people from the medical profession as well as the world of the arts – this is perhaps the reason why the bank produces one of the most erudite corporate journals in the financial sector. The summer 1996 edition includes articles on the Royal Ballet, Jane Austen, Shakespeare's Richard III and architecture and history – although most of that is devoted to assessing Duncan Lawrie's first 25 years in business and the building of its elegant offices in London's Belgravia.

The bank caused something of a stir last year when its journal published a short story by the novelist Kingsley Amis that may have been the last work he wrote before he died in October.

Mr Way says that the bank attracts clients who have built and run their own businesses and those who have a large lump sum to invest. Among them are clients who have been made redundant or have received a large lump sum pension payment. Bank officials recently made a presentation to a National Lottery winner.

Fund management is a central activity of the bank. It is fairly risk averse, encouraging its clients to commit no more than 10-15 per cent of their portfolios to more speculative investments.

Catering to this, Duncan Lawrie offers its own unit trust that invests in small companies. It is managed in-house by Dr Thomas Walford, a specialist in the sector.

A sister company, Duncan Lawrie Pension Consultants, offers independent financial advice, particularly on small self-administered and self-invested pension schemes.

Over 50 per cent of the bank's clients are from outside the UK. The majority of them come from introductions from existing clients or intermediaries. However Mr Way says: "We get a lot of refugees from the larger banks, which lack the personal service that clients expect from a private bank."

Mr Way says that it is "arrogant" to refuse to open an account "unless the customer can leave half a million". He adds: "We will open a zero balance account on the right basis. Some customers open an account for a six month trial period." The examination process works both ways. Mr Way says that he will turn away business when "people are less than forthcoming" about the source of their funds.

However, he admits taking on a new client who arrived on the bank's doorstep with a Harrods bag stuffed with a large sum in cash. She had fallen out with her existing bankers over a bounced cheque, but her references were impeccable.

William Berkeley

■ **Corporate finance:** by Nicholas Denton

Cross-selling brings gains - and losses too

Banks who offer M&A services to their private clients can forfeit their custom

Investment banks have a multiplicity of reasons for their enthusiasm for private banking. First, the steadiness of fee income is particularly valuable to investment banks. It provides a steady earnings stream, while revenues from proprietary trading and M&A advice are notoriously volatile.

Second, investment banks can benefit from synergies between their securities and asset management activities, and the investing of money on behalf of private clients. Research designed for institutions can be repackaged for individual investors. And private clients, when they buy or sell holdings, provide volume and commission for an institution's stockbrokers.

All this is commonplace. But there is another synergy which is often overlooked. Private banking ties in neatly with investment banking services such as equity distribution and M&A advice.

Outside countries with highly developed stock markets, such as the US and UK, assets tend to be held privately. That is the case in continental European nations such as Spain, Italy and Germany, and most of all in the Far East. In these regions, private banking clients and investment banking clients are often the same people. "There is a very natural congruence between the people who represent private wealth and people who give corporate finance mandates," says Mr Walter Haydock, general manager of the Zurich-based private bank of Goldman Sachs.

Considerable scope exists for "cross-selling" between the two divisions. When an entrepreneur considers floating the family business, his private banker will often be one of the first to know and can refer the business to investment banker colleagues. In Spain, for example, Merrill Lynch consciously built its investment banking around its established private banking connections with entrepreneurs. "Privatisation was a small market," says Mr Miguel Matossian, head of Spanish private banking for Merrill Lynch. "Where we could really grow in investment banking was with second-tier companies which were not listed on the stock exchange."

It can work the other way around too. The investment banker can bring to a client's attention the private banking services of the group, and give it a better chance of managing the proceeds from the sale. "In doing a deal, you get very close to the owner of the company or the big shareholders," says Mr Matossian. "You have a better chance of getting private banking work if you are there at the right time."

The investment banks jealously guard the precise identity of their private banking clients. But Goldman Sachs, which holds about $80bn in private banking assets, points to a client in Switzerland, whose name it does not disclose. Over four years a private banker had courted the entrepreneur, and came to the conclusion he was inclined towards an eventual disposal. The private banker passed the lead to the corporate finance department. The entrepreneur recently picked Goldman Sachs to handle the sale and, the proceeds realised, the persistent private banker won a large account.

In another example, JP Morgan, which has $40bn under management in private banking, handled the sale of a family-owned luxury goods company in France. It is thought still to manage well over $400m in assets on behalf of the majority of the former family shareholders. And, from its private banking connections, Merrill Lynch has won at least five mandates to do initial public offerings and other deals in Spain.

Much of the cross-fertilisation comes naturally. But some investment banks have helped the process along. Merrill Lynch's private bankers in Spain are now given about a week a year in refresher courses on the techniques of flotations and disposals. It means they can talk intelligently to clients about their strategic choices and judge when to refer a situation to investment banking professionals.

JP Morgan shifted Mr James Higgins, former head of M&A in New York, over to its private banking division, in part to promote collaboration between the two units. And in Asia it has created country teams which integrate people from both businesses. Another leading investment bank, described by its rivals as "militant" in its cross-selling, is reputed when advising on a disposal to insist in its contract that its private bank manages the proceeds.

Inevitably, there are limits to co-operation between the two divisions. First, professional advisers sometimes balk at the notion of a broader role for private bankers as relationship managers for clients. "There is sometimes a problem if a private banker represents himself as knowing more than he does," says a senior private banking executive. Nor are the deals done by private clients' companies always large enough to warrant the involvement of an international investment bank.

Moreover, covering both a customer's corporate and personal business doubles the possibility of irritating that client. Mr Haydock says that while Goldman's returns from investing client money are very attractive, the organisation's corporate finance professionals are always aware of the "potential for disappointment" if the market turns down. A client's loss on a personal investment can mean a lost corporate mandate for the investment bank.

And, even in rising markets, clients can find cause for complaint, particularly with investment banks handling hot issues. Merrill Lynch's lead role in the Indosat flotation in Indonesia lost it private clients in south-east Asia: they felt that their relationship with Merrill demanded a larger allocation of the much oversubscribed issue than they ultimately received. "Often these deals do more harm than good, because expectations run wild, leading to inevitable disappointment," says a leading US private banker.

Above all, investment banks have constantly to guard against the suggestion that the quality of their personal financial advice can be corrupted by the desire to win corporate mandates. The integrated houses insist they have Chinese walls separating private and investment banking functions. Nevertheless, the notion that cross-selling investment banks have a conflict of interest persists – if only in the marketing pitches of dedicated private banks.

Madrid: Anglo-Saxon private banks hope to win more Spanish business

■ **Technology:** by William Essex

The Web can wait

Improving systems in-house is a bigger priority than trawling for clients on the Internet

Mr Steven Taylor is one of a new breed of private bankers who aim to use information technology to make their institutions more competitive. Before he became marketing director of Kleinwort Benson Private Bank, he was in charge of IT. He says: "The most important move is to change the IT perspective away from products to clients. At the turn of the year, we pulled all our systems together, so that our client managers now have a truly client-focused approach. If a client telephones, they can see everything he does with us, all on one screen."

Systems integration is a vital part of managing client contact. Kleinwort Benson uses a system designed in-house that, according to Mr Taylor "brings in all the information overnight from the different product systems, on to our IBM portfolio-management system, and then presents it in a consolidated client view of the world."

Another British banker says that British private banks are sometimes handicapped by a failure to deliver instant information to clients on demand. "We're running to catch up," he comments. "A lot of British banks have problems here that other banks simply don't suffer from."

Most private banks use – or are developing – their own software able to "window" information drawn from several different systems on a single screen, or, ideally, to integrate it into a single presentation. The latter goal is superior to windowing, which involves time-consuming moves between windows. Swiss banks are seen as having the best proprietary software for the purpose.

There are different schools of thought on the value of the Internet to banks. Mr Taylor, perhaps surprisingly given his background, is among the sceptics.

"The current obsession with the Internet is not something I share," he says. "It has a long way to go before it becomes useful in private banking. Of the 24 million households in this country, 2 per cent have access to the Internet, and the great majority of the people in them who actually use it are in their teens and early twenties."

The young are not an important target market for private banks. In addition, connecting to the Internet raises concerns about the security of information from hackers. Banks that have connected usually claim to have implemented security systems that involve "at least three" scans of incoming transmissions. Three is a magic number in this context: even authorised access commonly requires three passwords.

Bankers in favour of connecting regard the Internet as a means of advertising and providing information through a site on the World Wide Web. Sceptics point out that the terms used to describe web users – "browsers" and "surfers" – do not imply a systematic search for useful information. However, websites do generate business. Barclays International, for example, launched its 10-page website in March this year, to promote its operations in Knightsbridge in London, Dublin and the British offshore islands. Since then, 6,000 "hits" from site users have yielded 363 new accounts.

Websites are the virtual world's answer to display advertising, and have the additional market research value that the number of hits on each page within a site, and the time spent looking at it, can be recorded. Their disadvantage, due to restrictions on the availability of effective data encryption, is that although a bank can use a website to establish a virtual presence in its customers' homes, confidential business cannot be transacted through it.

Some bankers see E-mail as the key to the development of Internet banking. Busy Citibank clients, for example, can download their account details via a modem to a Psion Organiser, a popular handheld computer. Offline they can tap in instructions and later E-mail these back to Citibank.

Mr Mike Dennehy, Citibank's Marketing Director, talks of "downloading in the departure lounge, making the changes on the plane, and sending them back when you get to the hotel." Psion Organisers, unlike laptops, can be carried in a top pocket, and run for 70 hours on two 1.5 volt batteries. Psion's modem is about the size of a large cigar.

■ **Staff:** by George Graham

Job-hoppers strain clients' goodwill

Long-term client relationships benefit from a high degree of staff continuity

What does it take to make the ideal private banker? The traditional requirements include a smooth manner with clients, exacting service standards, strong fund management skills, extensive knowledge of taxation and inheritance laws – and in some cases the ability to advise on wine or art investments.

"By definition, the private banker is a high calibre generalist – a sort of Harley Street GP. Very few people have the range of experience often considered necessary," says Mr Michael Maslinski, a strategy and marketing consultant specialising in the private banking sector.

Private bankers surveyed by Price Waterhouse, the accounting and consulting group, ranked staff quality second only to service quality among the most pressing issues they now face.

The result has been that many banks have stepped up their in-house training programmes and reorganised their career structures.

At the same time, however, many banks have tried to buy in staff, resulting in a bidding up of salaries and a few rancorous poaching battles.

This kind of turnover is the private banker's nightmare. Without staff continuity, it becomes very difficult to deliver the kind of personal relationship that wealthy clients expect.

Mr Robert Way, director of Duncan Lawrie, a London private bank, argues that smaller institutions like his own have an advantage in this respect, as staff turnover tends to be slow. The private banking arms of large retail banks – especially when their career structures are integrated with the parent group – typically see managers moving on every two or three years.

"Senior bankers are disturbed as much by potential staff turnover as they are by client turnover; the whole premise of private banking is based on longevity of relationships," says Ms Lynne Bicker, managing director of the Solutions Organisation consultancy and author of a book on private banking in Europe.

Family-owned Swiss private banks like Pictet & Cie can boast staff turnover of no more than 3 per cent a year, but the bigger Swiss banks probably lose 15 per cent of staff each year and some international banks 30 per cent.

> The scramble for skilled staff among banks has bid up salaries and led to rancorous poaching battles

Private banks have tried to organise their staff in teams, so that the departure of one banker does not entail a sharp break for the clients he or she served.

"The last thing you want is for the client to think he is dealing with only one person," says Mr Georges Vergnion of Chase Manhattan Private Bank in Geneva.

But a private banker who has built up a following among his clients with his investment skills can often take those clients with him when he moves, leading to an instant loss of revenue.

Many clients followed a private client team that jumped last year from Hambros Bank to Singer & Friedlander, and a large defection from Credit Suisse to James Capel, part of the HSBC group, ended up in court.

Credit Suisse Asset Management, the London private banking arm of the CS group, won injunctions against ten private client managers, enforcing restrictive covenants in their contracts that prevented them from soliciting their former clients.

The case raised difficult issues about whether the client relationship that private banks prize so highly is with the institution or with the individual manager. In some instances, the clients of the CS defectors had been with the managers since the old days of stockbroker Buckmaster & Moore.

A separate action brought by CS alleges that James Capel agreed to pay bonuses of 1 per cent on the value of assets transferred by clients from CS, an allegation that the defectors have denied.

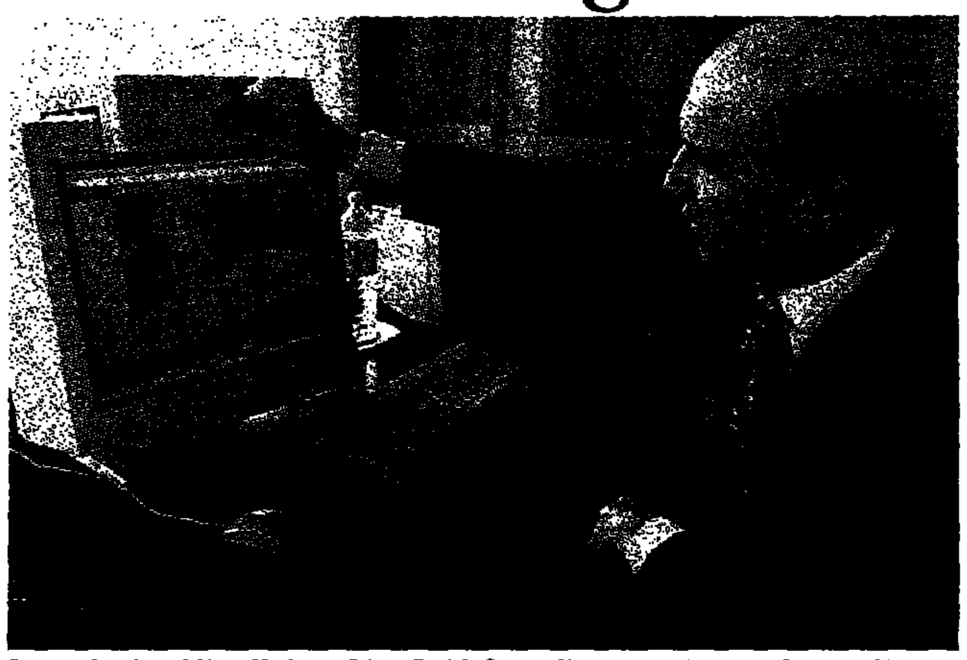
The increase in staff volatility follows a period of relative stability. Fund managers in the early 1990s were a little more concerned about job insecurity, and many felt safer staying where they were.

Turnover of staff and clients may now be increasing, but it is still relatively low. That makes it easier for banks to invest in new staff as their business expands.

"People don't come to us for a year and go away again. They tend to come, we hope, for life. If you have to recruit a fund manager to service them, the payback is very short," says Mr Philip Darwall-Smith, chief executive officer of Royal Bank of Canada Investment Management in the UK.

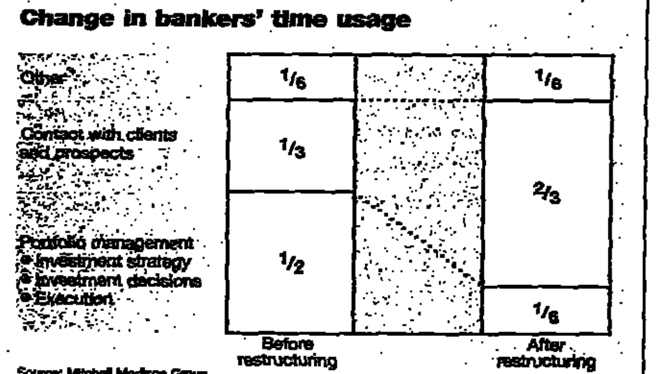
Many private banks still prefer, wherever possible, to train their own staff. The rapid growth of the industry, however, is making that more difficult, and demand for top quality private bankers is outstripping supply.

"The biggest restraint, in my view, on the growth of private banking is the availability of suitable staff in the numbers now required, particularly relationship managers," concludes Mr Maslinski.



Georges Vergnion, of Chase Manhattan Private Bank in Geneva, stresses the advantages of team working

Change in bankers' time usage



Source: Mitchell Madison Group

■ **Offshore centres:** by Adam Courtenay

The lands of the tax-free

Tax, unlike death, is no longer inevitable for those who move their wealth offshore

In the world of tax havens, size means nothing and fame everything. The biggest tax haven is Panama, with a surface area of just 29,000 square miles, yet its reputation is in inverse proportion to its size.

And then there is Nauru in the Pacific, eight square miles mainly made up of phosphate deposits. The mighty Rock of Gibraltar, meanwhile, is but a wisp of a fiscal refuge at just 2.5 square miles.

Tax havens provide homes for capital which has flown the mainland for any number of tax-related reasons. Most of the larger private banks around the world have established themselves in a number of offshore centres to exploit this.

It is difficult to get private bankers to recommend individual jurisdictions because their business is often genuinely global. Mr Talmai Morgan, managing director of Bermuda Trust in Guernsey says the global marketplace has never been more accessible and at a cheaper price.

"We can offer a total real-time service for a family spread across the world," he says. "They may have a one-to-one relationship with us in Hong Kong, there could be a Guernsey or Jersey trust involved, there may be several underlying companies, perhaps owning assets such as property or yachts."

"There may be bank accounts in the Caymans, the US or Luxembourg – the presence of our offices worldwide will make for the convenience of the client."

Mr Julian Bub, managing director of Chase Manhattan Bank and Trust Company questions whether the jurisdiction where money is held is of any real importance: "It's not as simple as saying that a client's money is in Switzerland, Jersey or New York. They may indeed have a Jersey trust, but the assets underneath that Jersey trust and company can be anywhere in the world."

Mr Michael Giles, the chairman of international banking at Merrill Lynch, says that Merrill's international clients – whether from Europe, Latin America or the Middle East – still view Switzerland as dominant offshore. Where trusts are concerned, Merrill has opted for the Caymans. Chase Manhattan, on the other hand, has centralised most of its trust administration business in the Channel Islands.

Offshore centres are chosen mostly for reasons of culture and geography. Luxembourg's proximity to Germany made it the recipient of one of the biggest movements of flight capital of all time. It was the main destination for an estimated DM300bn in capital that took flight when Germany imposed a 30 per cent tax on interest payments in 1993.

Luxembourg's strength is that it has no withholding tax. But its geographic position between Latin and Germanic Europe, once an asset, is now causing it problems. Germany and Belgium are demanding an EU-wide withholding tax to stem the flow of untaxed funds there.

Luxembourg's response is to suggest that witholding tax should be imposed throughout the OECD. In other words, if it cannot have an advantage over its neighbours, nobody else can. An OECD-wide withholding tax would inevitably embrace its rivals the Channel Islands.

Jersey, considered one of the most stable jurisdictions, is no stranger to this kind of problem. It is an open secret that the island benefited from enormous amounts of South African money skirting exchange controls during the South African elections. It even set up a polling station for passing expatriates.

South Africa's foreign exchange authorities visited the island at one point, and were politely shown the door, in the same way that German tax authorities have been thwarted by Luxembourg's regulators.

Other offshore centres thrive on particular political niches. Cyprus has a number of business advantages for east Europeans, due to its double taxation treaties with most countries of the region. This has advantages if, for example, a client using a Cypriot offshore company wishes to buy equity in a Czech water company or a Hungarian brewery.

Because the entity holding the equity is Cypriot, there is no capital tax exposure on the asset itself, dividends are paid out more cheaply and withholding taxes within the country are sharply reduced.

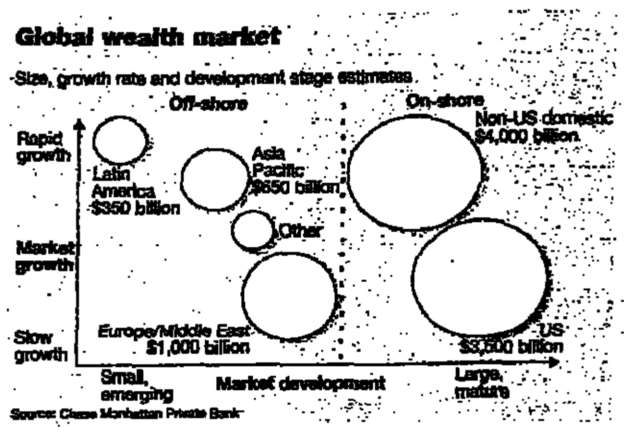
Private bankers say offshore centres are often used by expatriates to invest back into their former country of residence without incurring local withholding taxes. Mauritius, for instance, is now the fourth biggest provider of direct investment into India, pumping more than $220m into the country last year. In the past three years the number of offshore companies registered there has grown from 10 to 2500, due to a favourable double tax treaty with India. Its 45 offshore investment funds manage $4bn in collective assets.

The South Pacific is host to the cheapest offshore services. Western Samoa and Vanuatu are attempting – with considerable success – to cater for the need among Hong Kong residents to shelter assets they fear might be lost to them after China takes Hong Kong back after 1997.

Western Samoa recently streamlined its company registration renewals. A single fee now covers 20 years of activity. Vanuatu replied with legislation that allowed offshore companies tax freedom for 20 years, with the main regulatory condition being that they remain solvent.

In the Caribbean, the Turks and Caicos Islands and the Caymans almost simultaneously legislated for limited partnerships, which can be used as a "pass-through vehicle" for US taxation purposes. Offshore limited partnerships work by bringing together up to 99 "partners" – institutions and wealthy investors – to create a pooled investment vehicle similar to a mutual fund.

Global wealth market



Source: Chase Manhattan Private Bank

Gibraltar: small, but packing a big punch among offshore centres PA

■ **The US:** by Richard Waters

An invasion from Europe

Wealthy US clients are attracting a flurry of interest from overseas institutions

The US private banking market is facing a foreign invasion. Already awash with domestic banks, investment managers and trust companies, all of them targeting the same ultra-wealthy clients, it is now on the receiving end of a concerted push by established European institutions.

The Europeans start with a common ambition. "More than 50 per cent of the world's private banking assets are here in the US," says Mr Paul Imison, the North American director of Coutts, the private banking arm of National Westminster Bank. "It's a huge market that you can't ignore."

That sentiment is echoed, in more or less the same form, by other European institutions, including such well-known banks as Credit Suisse and Deutsche Bank. They have been hiring private bankers and opening offices in big cities around the country, looking for a foothold in one of the most profitable parts of the financial services business.

Breaking into what is already a crowded market, however, will not be easy. It is also likely to present some interesting culture clashes, as traditional, European-style private bankers pit themselves against the more developed US investment management industry.

"There is no typical private banking market in the US, from a European point of view," says Mr Nassos Michas, head of private banking at Merrill Lynch. The term has only recently been pressed into service to refer to the range of investment management, trust and credit services, he says.

The Europeans generally start from a position in the international private banking business – managing money in the US for wealthy Latin Americans or Asians, or for their clients in Europe. Two-thirds of the $3bn (£1.9bn) of assets managed for private banking clients by Credit Suisse, for example, is for non-US clients.

Most have only recently begun to switch their attention to the domestic business – forming relationships with wealthy US families and entrepreneurs.

The job is likely to be made harder by changes in the US market. European-style private banking relationships – where confidentiality, security and tax efficiency are the overriding considerations – differ from those on the other side of the Atlantic. The owners of private American wealth, by contrast, are in search of better investment performance.

> Breaking into the crowded US private banking market will not prove easy for the European newcomers

"Families with a great deal of wealth often now hire outside investment consultants," says Mr John Hoover, head of private banking at US Trust, a New York-based institution which last year sold its institutional trust businesses to focus on private clients. "Families are now not unlike institutions" in how they select their bankers and investment managers, he adds.

Mr Barry Sloane, who runs Credit Suisse's US private banking business, calls it "the institutionalisation of private wealth": rich families are now using investment techniques – ranging from asset allocation to stock lending – which until recently were the preserve of the institutional investor or large foundation.

One European private banker sums up the different challenges of this new US market. The typical Latin American client has a large account, mainly invested in equities or other straightforward securities. The typical European has a smaller account which is managed more aggressively, often by trading between currencies. The typical American, on the other hand, has "a totally different level of sophistication" when it comes to investment products.

A new level of intensity in marketing has entered the private banking business in the US. "It used to be a passive and static business, basically catering to old wealth," says Mr Michas. The massive new wealth created in the past two to three decades, on the other hand, has no natural home. Companies such as Merrill, whose businesses have always revolved around a highly active sales force, are now widely seen by competitors as among the most successful in attracting this money.

The greater level of investment sophistication, and the increased emphasis on the importance of marketing, have gone hand in hand. At conferences and meetings organised by associations set up to service wealthy families, it is now common to find wealthy individuals openly discussing their investment strategies, says Credit Suisse's Mr Sloane. "That has changed the whole nature of the business. It has made it a national market," he adds.

These changes may have made the US private banking business easier for an outsider to penetrate, but they have also made it more competitive and raised the performance levels.

To some extent, however, the cachet of the European private banks – particularly the Swiss – is likely to work in their favour. The Europeans also hope to benefit from their parallel push into the US investment banking business.

Through its link to CS First Boston, for example, Credit Suisse hopes to have access to the chairmen of many of the US's biggest public companies. The investment banking link also brings access to equity research and block trading services that were developed for an institutional investment client base. Private banking clients "think like institutions, and they want to be treated like institutions," says Mr Sloane.

In spite of the daunting challenges, the 1990s may turn out, in retrospect, to have been one of few decades to offer a real opportunity for outsiders looking to break into the US market. With the ageing of the Baby Boomer generation, the demand for wealth management services could be close to a peak. This highly fragmented and growing market may not offer such attractive opportunities again.

Mr Sloane predicts that around the middle of the next decade "the juice will go out of the business". As the Baby Boomer generation hits retirement, according to this theory, the great era of investment will be over. That, in turn, could lead to greater consolidation in the investment industry generally.

The rival view is expressed by Mr Hoover at US Trust. The passing of the Boomers will bring a "tremendous transfer of wealth", he says. That, in turn, will create a new opportunity for wealth managers.

Wall Street: home-grown asset managers are highly competitive

■ **Switzerland:** by George Graham

It is still the biggest

Banks are responding to accusations of high charges and poor investment

Only the foolhardy would quarrel with Switzerland's claim to be the world's pre-eminent private banking centre.

It is after all, reckoned to be the destination of more than a third of the estimated \$2,100bn pool of international offshore wealth, placed outside their home countries by individuals with liquid assets of over \$1m.

Its largest banks Union Bank of Switzerland, Credit Suisse and Swiss Bank Corporation stand well clear of their nearest rivals, while even second-tier Swiss private institutions, such as family-controlled Lombard, Odier et Cie, Bank Julius Baer or Pictet et Cie, rank as big participants in the world private banking market.

Swiss banks have had a good year with a heavy inflow of capital from neighbouring Germany, a strong appreciation of the Swiss franc and more favourable investment markets helping to erase the memories of 1994's weak performance.

In such circumstances it is easy to forget that it was not ever thus. Mr Hans Baer, chairman of Bank Julius Baer and a board member of the Swiss Bankers Association, points out that in 1944, the entire Swiss banking system had deposits and other liabilities of only SFr17.5bn (\$13.9bn) one sixtieth of today's figure. Commission income, which is an important measure of private banking activity, amounted to just Sfr49m, one third of 1 per cent of today's figure. Most of the growth has occurred in the last two decades.

It is easy to assume that Switzerland's current position will continue indefinitely. Swiss private banking has, however, faced serious challenges over the last few years.

Falling tax rates in much of the industrialised world have boosted domestic private banking markets at the expense of offshore markets like Switzerland. And new centres like Luxembourg and Singapore have challenged the country's magnetism for such offshore money as remains.

Swiss private bankers have suffered a number of blows to their image. Their services have been perceived as overpriced, and their investment performance as flaccid – dangerous perceptions in a market that is increasingly sensitive to both price and performance.

Mr Albéric Braas, a partner with management consultants Mitchell Madison, says Switzerland's expensive image may be a myth. Surveys of Swiss private banks show them taking total annual fees of well under 1 per cent of assets under management. Management fees of 1-1¼ per cent are not unusual in the UK and US.

And while he concedes that investment management was, at least until recently, a serious problem, he argues that the Swiss are not alone.

"I don't believe this is a Swiss issue," he says, "It is a rampant issue in the traditional private banking business as a whole."

But the perceptions have persisted, and they have been compounded by renewed questions, especially in the US, over whether Swiss banks have held on to assets left with them before or during the second world war by Jews later killed in Nazi death camps.

The Swiss Bankers Association found only 775 dormant accounts holding Sfr39m that might belong to victims of the Holocaust after a search in 1995. But last month it agreed to set up a joint commission with the World Jewish Congress to conduct a thorough investigation.

"The entire affair has done damage. We should have settled this issue earlier," says Mr Baer.

The Holocaust issue has distracted attention from some of the changes under way in the Swiss private banking industry. The most dramatic change of all did not, in fact, take place; UBS rebuffed the merger overtures of CS Holding, parent of Credit Suisse. But consolidation, across national borders, has continued on a more modest scale with deals such as the acquisition of Banque Unigestion by Republic National Bank's Swiss arm, or SBC's purchase of the private banking business of Standard Chartered, the London-based Asia-Pacific bank.

At the same time, banks such as SBC have given more autonomy and visibility to their private banking units, whose consistent earnings quality has become more highly prized by stock market investors.

"The big banks have now decided to activate their private banking departments as big profit centres," says Mr Edgar de Picciotto, head of Union Bancaire Privée, one of Switzerland's most profitable banks.

Radical internal changes by many of the leading private banks are less visible to outsiders but are more significant in the long run.

The first step has been a thorough analysis of costs of revenues, which typically establishes what Mr Braas calls the traditional 80-20 rule where 20 per cent of the customers bring in 80 per cent of the revenues, and substantially more in total profits.

With better segmentation of customer bases, banks have learned to concentrate their efforts on the most profitable clients, who are usually the wealthiest. And with greater specialisation among their own staff they have given their personal bankers more time to look for new customers and handle old ones, while allowing their best investment managers to concentrate on asset management.

Investment has been remodelled by the adoption of modern portfolio theory, with much more disciplined allocation of assets and rigorous alignment of portfolio volatility with each client's risk profile. That has also led Swiss private banks to invest more in equity markets, traditionally the preserve of London and New York managers.

"The days when an aggressive Swiss portfolio had 30 per cent equities and 70 per cent bonds are probably over. If you look now at balanced portfolios coming out of Switzerland and London, the asset allocation wouldn't be too different," says Mr Philip Darwall-Smith, head of private banking at Royal Bank of Canada in London.

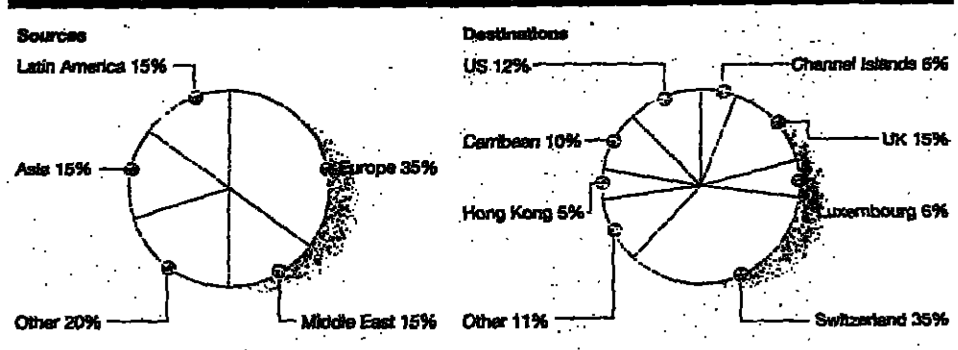
It has not always been easy to recruit qualified staff to implement the new techniques. Mr de Picciotto had to raid the mergers and acquisitions department of Lazard Frères in New York to find a new head of international private banking for Union Bancaire Privée.

"It is very difficult to find the right people to do this kind of work. This is the reason we had to go abroad," he says, noting that the Swiss university system has woken up to the need to turn out graduates with a different set of skills.

The challenge for Swiss banks is to translate this internal revolution in management practices and culture into real gains in the onshore private banking market outside their own country, an area where they have so far made little headway. Brand names are important in domestic private banking, so the coming years could see the Swiss banks on the acquisition trail.

Zurich: Switzerland's financial centres are fighting off the challenge posed by Singapore and Luxembourg

Sources and destinations of private banking funds



Source: Chase Manhattan Private Bank

■ **Money laundering:** by George Graham

Filthy lucre loses ground

It is getting tougher for private bankers to turn a blind eye to the origins of deposits

Secrecy has always been a central selling point for private banks, but regulators are setting stiffer requirements to ensure that it does not serve as a cloak for movements of dirty money.

The issue of money laundering is no different in its basics for a private bank than for any large commercial bank.

"There are problems, but they are the same as for any other bank. We have to guard both the confidentiality of our clients and our own reputation," says Mr Anthony Marshall, chief operating officer of the Private Bank and Trust Company, a bank set up by the the Latsis shipping family in London's West End in 1989.

Indeed, a small private bank is likely to know its customers well. Most will have been introduced by another client rather than have walked in off the street. It will thus be more alert to suspicious movements of funds than a large, anonymous institution, which might not spot a wave of deposits made at its different branches.

Nevertheless, the origin of clients' money is a point of serious anxiety. Some smaller institutions require any new customer to be sponsored by a main board member.

The Swiss central bank is particularly concerned about the flow of money from Russia and eastern Europe. It fears much of this could be directly or indirectly tied to organised crime, and worries that some banks do not take the problem seriously enough.

In the Far East, too, some private bankers have expressed concern about the origins of some of the wealth now flowing out of China.

The basic legal requirements are clear: under a variety of laws and regulations, including the European Union money laundering directive of 1991, banks are required to know their customers, and to notify the authorities of any suspicious transactions.

The UK law implementing the directive, for example, creates a new offence covering anyone who in the course of his or her business knows or suspects that another person is engaged in money laundering, but does not disclose this to the authorities.

EU directives do not apply in Switzerland, but due diligence is now required there too.

A 1992 agreement among the Swiss banks imposes specific requirements. Banks must:

- Verify the identity of their contracting partners;
- In cases of doubt obtain from the contracting partner a declaration setting out the identity of the beneficial owners of assets deposited with the bank;
- Refrain from actively assisting the flight of capital and tax evasion.

Some finance ministry officials are now less concerned about Switzerland than about Luxembourg which, although covered by EU regulations, has maintained a law binding any professional to secrecy under penalty of prison. In its implementation of the EU money laundering directive Luxembourg has required bankers to notify the public prosecutor of suspicious transactions only when they specifically relate to the laundering of drug money, leaving secrecy intact for other possible offences such as tax evasion.

Although the basic requirement that a bank should know its customer is now established, there is doubt about precisely how far it should go in seeking information.

The money laundering spotlight has now moved further afield to countries such as the Seychelles. The country has become the object of the opprobrium of the Financial Action Task Force, a group set up by the leading industrialised nations to combat money laundering, because of a new law offering virtual immunity from prosecution to anyone willing to invest enough money in the country.

Shanghai: bankers have qualms about some Chinese money   Sarah Murray

PROFILE Barclays Private Bank

Hooray for hinwis

Some call them hinwis – high net worth individuals. Others like to think of them as individuals with substantial personal assets, or ispas. They are the seriously rich whose banking requirements place them in the private jet end of the market, and whose custom the newly-established Barclays Private Bank is wooing.

Customers of private banks are seeking investment management, custody and fiduciary services as well as personalised retail banking. And increasingly these services have to be provided on a global basis. Mr Michael Tomalin, managing director of Barclays Global Private Banking division, describes the typical customer as "an Argentine whose cash is handled in Switzerland, but who has investments managed from London, a Jersey trust fund and a personal banker in Miami".

Switzerland is the traditional banking home of choice for such individuals but Mr Tomalin says London competes increasingly successfully. Numbers are elusive in this world of absolute discretion but London may manage about seven per cent of the wealth of the world's ispas. Barclays private banking division looks after \$27bn globally and the new dedicated UK operation which starts next month will inherit \$2.8bn of client money from the four divisions which previously handled specialist functions separately.

Some of these have always formed part of Barclays; it has been setting up trusts, for example, for at least 50 years. Others have developed since the creation of BZW, the group's investment bank, after the City's "Big Bang" in 1986. BZW Portfolio Management, one of the four divisions to be merged into the new operation, is the descendant of the private client business of stockbrokers de Zoete & Bevan, the "Z" in BZW.

Richard Amos, the chief executive of the new bank says, the main difference is that all the services will now be delivered seamlessly.

And discretely. Barclays denies that there is an entry threshold to this end of private banking but Mr Tomalin is prepared to say that the bank manages a minimum of £1m for each of its private banking clients.

The services provided are tailored individually to suit the client's total asset base. This may mean advice on family shareholdings in private businesses, tax planning or currency management. Specialist legal, accounting or corporate finance skills may need to be called on, but the advice, products and services are always delivered by one individual banker who stays with his clients throughout his career.

What it does not mean is providing clients with Barclays packaged products unless they happen to be the most suitable and competitive. One reason for setting up the new private bank is so that it can operate as an independent financial adviser under the Financial Services Act.

This is a vital feature in retaining wealthy individuals as customers. As Mr Tomalin points out, "Much more than institutions, individuals look for an absolute rate of return. Institutions tend to measure themselves against their peers, but individuals look at the finest return available in the market."

They may also have sizeable funds tied up in under-performing assets which they will never sell except in extremis. The private banker learns preferences such as these over the years.

That requires a special kind of person with a highly flexible back-up. Barclays private banking division has 870 staff operating from 17 offices across the world from the British Virgin Islands to Lugano, Zurich to Taipei, New York to Monte Carlo. In nearly all these locations the private banking operation is separate from the retail bank, with its own dedicated computer services and administrative infrastructure.

Most of the executives of Barclays Private Bank have a legal, tax or accounting background plus experience in the corporate finance division of a merchant bank. Experience of retail banking does not seem to be stressed, possibly because many elements of that have been computerised, but the private banker still needs to be able to advise his clients and their families on loans, mortgages and all forms of debt.

Christine Moir

MALAYSIA

Signs of cracks in Mahathir's edifice

The country exudes confidence but there is a severe labour shortage and it may be spending beyond its means, write James Kynge and Gordon Cramb

As Dr Mahathir Mohamed prepares next month to celebrate 15 years as Malaysia's prime minister, his achievements do not dim his enthusiasm for the grand schemes with which he seeks to propel the country forward.

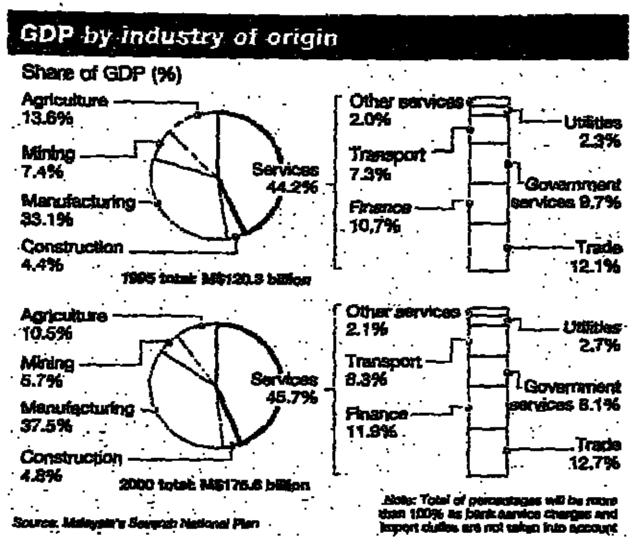
Around him in Kuala Lumpur he can see finishing touches being put to the world's tallest twin office towers. A new administrative capital and international airport are being planned on greenfield sites to the south, while in Sarawak to the east work has begun on Asia's biggest hydroelectric dam.

Real gross domestic product grew 9.5 per cent in 1995. That provided an eighth unbroken year of growth above 8 per cent. Dr Mahathir, who inherited a rubber and tin based economy dominated by British and local Chinese interests, can now point to an array of enterprises run by members of his Malay majority race.

Malaysia exudes confidence, though some fear that may be turning into triumphalism. Sceptics – often wrong in the past – spot cracks in the country's economic edifice and ask: how structural are they?

At Malaysia's current stage of development, South Korea and Taiwan were nurturing a brace of innovative high technology companies which later broke into world markets. The titans of technology in Malaysia tend to be foreign-owned companies which have not transferred their knowhow to local partners as quickly as the government would want. Malaysia risks being caught in a medium technology trap. A shake-up planned in the education system may not come quickly enough.

GDP by industry of origin



But the main focus of concern is the current account deficit. Successive large shortfalls in the country's services trade coincided with a less favourable merchandise picture to produce a deficit last year of M$17.8bn, or 8.8 per cent of gross national product. Economists worry that Malaysia is spending beyond its means and may run into trouble if foreign investment inflows, the traditional means of financing the deficit, start to dry up.

Foreign companies, in search of somewhere to manufacture where labour is tolerably cheap but skills are adequate, say their single biggest headache is finding and keeping qualified technical staff. Annual wage rises for engineers can be as high as 15 to 20 per cent and throughout the economy salaries are climbing faster than productivity.

The government has allocated M$162.5bn for public spending over the next five years, and much of it is earmarked for infrastructure schemes which are sure to place extra strains on labour and capital resources. The prime minister spent part of last month in Japan and the US pushing his latest scheme: a "Multimedia Supercorridor" which aims to attract information processing, computer and software companies to a large area near Kuala Lumpur.

Critics say that the openness required for such a project might sit uneasily in a country where every imported newspaper is scrutinised before distribution. But Mr Abdullah Ahmad Badawi, foreign minister, assured diplomats last month that in addition to a creating a more open economy, "we are fast becoming a mature, liberal and highly tolerant society".

The country is embracing the commercial opportunities offered by the Internet, while educational material to combat the HIV infection that has severely afflicted neighbouring Thailand shows surprising frankness. However, "Asian values" of personal decorum, family duty and national consensus are vigorously espoused by the government.


The first £420m phase of the Kuala Lumpur light rail transit system is opening this month

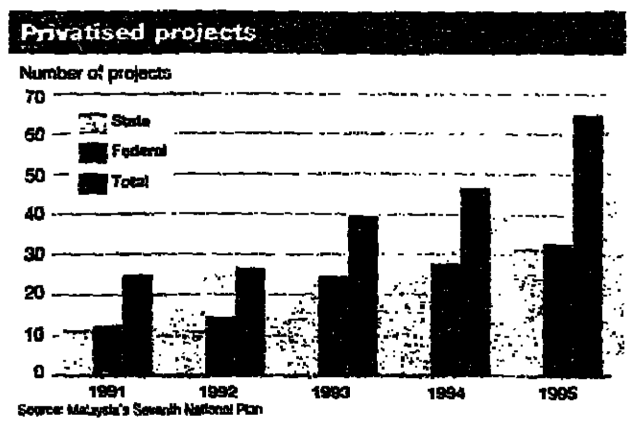
In a Washington speech last month, Dr Mahathir maintained that "not all forms of democracy are productive. There is good democracy as well as bad and destructive democracy." Identifying Asian values with those held in much of Africa and Latin America, he suggested that they formed a more widely shared world view than any belief system prevalent in the west.

Malaysia has helped spur the Association of South-East Asian Nations to broaden the regional grouping, of which Vietnam recently became the seventh member. But Dr Mahathir's proposed East Asia Economic Caucus – allying Asean with Japan, China and South Korea – has made no headway in Tokyo, his candidate for the leadership role. The Japanese government is too conscious of Washington's wariness of the idea.

At 70, the prime minister covers an impressive amount of ground. On one day recently he lectured hawkers on how much they should charge for a snack, suggested that Malaysia should set up a watchdog body to monitor human rights abuses in Europe, and defined the nature of courage for a team off to climb Everest.

But while Malaysian politics remains largely the study of one man, rivalries within the political hierarchy can be intense. Malaysia has been ruled since independence from Britain in 1957 by a National Front coalition, of which the dominant party is the United Malays National Organisation, founded 50 years ago. Political analysts say that the main division within Umno is between the supporters of Dr Mahathir and those who prefer his deputy and probable successor, Mr Anwar Ibrahim, who is also finance minister.

Privatised projects



The suave Mr Anwar, 48, has so far been an obedient understudy, content to wait until the incumbent bows out. But Dr Mahathir shows no signs of wanting to retire, and political pundits wonder how long the Anwar camp can contain its frustration.

One pressure valve may be the party's triennial conference in October. Dr Mahathir has already seen off any challenge at the conference, so he may stay on as leader until 1999 – many see in him a messianic desire to usher in the 21st century. But what may be revealing is the pattern of voting for lesser posts in the party: several candidates are known Mahathir or Anwar supporters.

Politics has become indivisible from business, and both are conditioned by a policy of affirmative action for indigenous Malays, or bumiputras (sons of the soil), who comprise about 64 per cent of the 20m population. Opposition politicians acknowledge that few Malaysians are inclined to vote against a government which has engineered such wealth while maintaining a durable coalition with parties representing the minority Chinese and Indian communities.

Moreover, Dr Mahathir marked Umno's half-century last month by quelling a few regional party difficulties and bringing back into the fold Tengku Razaleigh Hamzah, a prince who split with the organisation in 1987 after coming close to toppling him from the leadership. The defection of his Semangat 46 party leaves the opposition ranks all the thinner.

But trouble, both within and beyond Umno, could come from a scandal such as that surrounding Perwaja Terengganu, the state-owned steelmaker which parliament was told a month ago had become insolvent with net liabilities of nearly M$7bn.

Mr Anwar, left to break the news in the absence abroad of the premier, is said to be furious at the events which led to the disappearance from public view of Mr Eric Chia, a Mahathir associate installed to head Perwaja in 1988.

A police investigation is under way, as is an audit commissioned by Mr Anwar from accountants Price Waterhouse. According to a leading financier, though "a number of people had warned for a long time" of apparent irregularities at Perwaja, these were slow to come under official scrutiny.

It has not yet been resolved whether Perwaja's problems stemmed from corruption, financial mismanagement or the sheer inadvisability of a project which relied on shipping output to a plant in Dr Mahathir's home province of Kedah on what turned out to be uneconomic terms.

None of that stopped the premier from flaying a survey this month by the German-based watchdog Transparency International which put Malaysia halfway down a league table of 50 countries ranked by suspicions of corrupt practices. "Who are they to determine how we live?" he demanded.

If anyone has determined how Malaysians have lived in the past decade and a half, it is the former physician from Kedah. The answer, whatever other questions are raised, has to be that they live better than ever. The hectoring Dr Mahathir, hankering for the next big leap, appears intent to ensure that remains the case.

■ **The economy:** by Gordon Cramb

Fast-lane braking proves tricky

The current account deficit is a problem but other indicators are more healthy

For a country in the fast lane, the Ferrari index may provide as good a speedometer as most. "We used to sell four or five a year," says Mr Mohd Ayub Alias, Malaysia's importer of the Italian marque. "But last year we sold 18 and this year we have already passed 20. For 1997 I am requesting 50."

New car sales of all types shot up by nearly 50 per cent in Malaysia last year. That will moderate to a still vigorous 12 to 15 per cent for 1996, say analysts, as the effects of a tighter credit policy take hold. Kuala Lumpur's traffic-clogged streets bear testimony to the success of the "national car" policy and to the allure of imports – Mercedes abound.

Malaysia emerged with a 1995 current account deficit of M$17.8bn, equivalent to 8.8 per cent of gross national product, and this year's figure is expected to remain above 8 per cent. The government's latest five-year plan, issued last month, projects a return to surplus by 2000 but Mr Michael Yap of the partially state-backed Malaysian Institute of Economic Research admits this will be "a bit difficult to achieve".

The prime source of the deficit is not consumer goods, which account for only some 14 per cent of imports. Instead, it stems from purchases of foreign capital items that are bought either for infrastructural projects, which the country anyway is said to need, or to equip new foreign-owned manufacturing plants, which will soon export their output.

Ministers make reassuring speeches, arguing that a deficit is no disaster for a country experiencing rapid industrialisation and high levels of foreign investment. "Look at Japan, in surplus and in the doldrums," is a frequent theme. Malaysia's deficit is funded by long-term capital inflows rather than through external borrowing, it is pointed out.

But some are beginning to ask how sustainable that is. Foreign direct investment in approved projects fell 19.4 per cent last year to M$9.14bn, compared with M$17.77bn in 1995. With a tight labour market and spiralling wages, Malaysia's attractiveness as a manufacturing location is in danger of eclipse by more newly emerging economies. "In the absence of any significant change in spending habits, Malaysia will have to resort to foreign borrowing" to finance the deficit, warns Jardine Fleming.

The current account deficit is the most troublesome feature of an economy where most other indicators look healthy. And Malaysia's way of calculating aspects of it make the payments picture look worse than it is: all profits from foreign multinationals are assumed to be repatriated, whereas economists believe significantly more than half are reinvested each year.

But other measures may understate the problem. With a consumer price index which is believed not to be the best reflection of urban spending patterns, published inflation averaged only 4 per cent over the past five years. Producer prices were up an annual 3.4 per cent over that period, but growth in these input costs is now running ahead of the CPI.

Pay packets are swelling substantially. Mean monthly household income topped M$2,000 gross last year for an average 1990-95 annual growth of 9.5 per cent. In the capital the mean is above M$3,500, with an 11 per cent growth rate. According to J.M. Sassoon, the Singapore-based stockbroker, private sector wages were up last year by as much as 20 per cent.

A state-spurred drive is on to add value to local assembly plants. Dr Mahathir Mohamed, the prime minister, visiting Japan last month, said the time had come for an "integration backwards" into component manufacture which would supply parts for direct export to assembly points elsewhere as well as serve as import substitutes. After a visit to Fanuc, the machine tool maker, he said the country should also produce industrial robots.

These will increasingly be needed to replace labour-intensive processes no longer supportable with an unemployment rate as low as last year's 2.8 per cent. Fewer than half Malaysian women work, but the skills base is patchy. Migrant workers already account for at least a fifth of agricultural jobs. The country is starting to import doctors and nurses to staff state hospitals as the growth of private healthcare wins away locally trained medical professionals.

In common with other countries in the region, there is an ambivalence towards the presence of foreigners. Measures were introduced in the budget last October to limit what was seen as speculation in the local property market, particularly by Singaporeans. A punitive M$100,000 levy is now made on purchases of high-end residential properties by non-citizens.

The commercial property sector is also being closely watched for signs of a Tokyo-style turmoil in asset values. Rentals have barely risen in the past year, however, and remain among the cheapest in East Asia. A rash of new developments in Kuala Lumpur – of which the 88-storey Petronas Twin Towers are merely the most prominent symbol – may presage a glut as older premises are abandoned.

But many new blocks are being put up by companies to serve as their own headquarters, and are being funded by internal resources. "There is no bubble, so there will be no collapse," says Mr Yeoh Keat Seng, director of Crosby Research (Malaysia).

Bank lending is nonetheless surging, on the back of consumer credit demand, though year-on-year growth appears to have found a plateau just below 30 per cent. Bank Negara, the central bank, has been nudging rates upward and increasing statutory reserve requirements, but the authorities are conscious that they have a history of over-reacting. This time most analysts, agreeing that a soft landing is needed, are convinced that one can be brought about.

But in an economy which has become used to maximum acceleration, putting on the brakes is not easy. Ferrari's order book defies a 200 per cent duty on the import of large engined cars. "For every one I sell, I give the government two," says Mr Ayub.

Employment by sector (percentage figures)

Industry	1990	1995	2000
Agriculture, forestry, livestock & fishing	26.0	18.0	13.1
Mining & quarrying	0.6	0.5	0.5
Manufacturing	19.9	25.9	28.9
Construction	6.3	8.3	9.3
Electricity, gas & water	0.7	0.9	0.9
Transport, storage & communications	4.5	5.0	5.6
Wholesale & retail trade, hotels & restaurants	18.2	16.8	16.2
Finance, insurance, real estate, business services	3.9	4.8	5.3
Government services	12.7	11.0	9.9
Other services	7.2	8.7	10.4

Source: Seventh Malaysia Plan

■ **Privatisation:** by Guy de Jonquières

Influence of the state

The new strategy would benefit from greater transparency and clear ground rules

As one of the first countries in south-east Asia to embrace privatisation, Malaysia has often been held up as an example to other developing economies of the benefits of trimming the state's role and encouraging entrepreneurial initiative.

Since 1983, more than M$20bn has been raised through the sale of equity and assets and almost 100,000 workers transferred to the private sector. In the past five years more than 200 projects have been privatised, through asset sales or by contracting to private business activities previously done by government.

The authorities say privatisation has stimulated growth, increased efficiency, reduced costs and made possible big savings on public investment which have contributed to a healthy budget surplus.

Among the more striking successes have been a sharp acceleration of road-building and the ending in less than two years of chronic electricity shortages.

However, Malaysia is discovering that, while privatisation has solved many long-standing problems, it has also created new policy dilemmas. These have been highlighted by a number of recent government measures. They include:

■ A decision to reconsider a one-third rise in toll charges on the recently-completed North-South highway, promised to Plus, the builder and operator, under its concession.

■ Resistance to Tenaga's demands for rate rises to compensate for the higher cost of IPP supplies and to fund modernisation of its network. Difficulties in winning official approval have caused Tenaga's share price to tumble.

Tenaga is also in tough negotiations over the price it will pay for power from the planned Bakun dam, a private project strongly backed by Dr Mahathir Mohamad, the country's prime minister.

■ A public outcry over higher charges after water and sewerage services were privatised.

■ A decision this year to allow only three of five competing public telecommunications services licensed in late 1993 to go ahead – after all had invested in new networks.

Malaysia is not unique in its struggle to find a regulatory formula which encourages efficient privatised services at reasonable cost to the consumer. However, special characteristics to its approach to privatisation have complicated the task for policy.

One is the government's apparently equivocal attitude on how far it will let the market operate. "Competition is good, but too much competition can kill businesses," says Mr Daim Zainuddin, Dr Mahathir's senior economic policy adviser and architect of the privatisation strategy.

But the right competitive balance has often proved elusive, prompting the cabinet to step in to thwart politically unpopular price increases which privatised entities say they need for sound commercial reasons.

Critics claim the government has contributed to its own dilemma by continuing to pursue highly interventionist policies. Says one: "It wants to get assets off its books, but not to relinquish control over privatised companies."

The government has kept large shareholdings in important privatised entities such as Tenaga and Telekom Malaysia. Ownership of "golden" shares empower it to veto board decisions and influence top management appointments, as well as to block hostile takeovers.

Furthermore, many asset transfers and contracts for privatised infrastructure projects are not awarded by open tender, and often go to individuals or companies with good political connections.

For instance, Renong, the country's leading construction group, was created in 1989 by a share swap involving the investment arms of Umno, the ruling party organisation. Mr Tajudin Ramli, who acquired control of the state-owned Malaysian Airline System two years ago, is a former business associate of Mr Daim.

Opposition politicians grumble about cronyism – an allegation the government vigorously rejects. It does not deny "picking winners" as part of privatisation, but says the practice serves its declared policy of promoting a cadre of successful Bumiputra (indigenous Malay) entrepreneurs.

It also insists the policy has worked. "The people who are given these (privatised) businesses have shown a certain track record. They aren't given to any Tom, Dick or Harry," says Dr Gan Khua Poh, chief economist at the Economic Planning Unit.

Nonetheless, a number of observers believe Malaysia's privatisation strategy would benefit from increased transparency and clearer ground rules. Senior officials concede that policy has suffered from bureaucratic hiccups and from the weakness and under-staffing of regulatory bodies.

However, Mr Daim says establishing truly independent regulation will be difficult because so many different political and party factions have a stake in privatisation. "Everybody has some interest to fight for, and the government hasn't time to monitor everything," he says.

Pressure for reform could grow after a recent decision to allow holders of concessions on privatised infrastructure projects to be listed on Kuala Lumpur's stock exchange. Some bankers believe that, without a clearer policy framework, these companies could be highly volatile.

They also warn that if the government makes a practice of intervening unpredictably to change the rules, it risks driving away foreign capital which Malaysia will need for its future development.

But there is little evidence yet that that is happening. Indeed, Mr Antony Becker of Fieldstone, a consultant on the financing infrastructure projects, says his company is frequently approached by US emerging market funds urgently seeking ways to invest money in Malaysia.

Nor was Switzerland's state-owned telecommunications monopoly deterred from agreeing recently to pay $300m for 30 per cent of Mutiara – a loss-making mobile communications company whose plans to operate a public service network have been blocked by the Malaysian government.

The logic of the Swiss move has baffled industry and financial experts in Kuala Lumpur. But with foreign investors continuing to pile in so boldly, Malaysia should have little reason to worry that privatisation will be derailed by a shortage of capital.

■ **Infrastructure:** by Guy de Jonquières

Ambitions may be too grand

With so many projects under way, there is a danger that capacity may outstrip demand

In only two years, Kuala Lumpur's skyline has undergone a dramatic transformation. Once a city of mainly low-lying buildings, it is today studded with skyscrapers, dominated by the 452-metre Petronas twin towers, the world's tallest office block.

Changes on the ground are equally striking. An urban light railway, opened this month, has given Kuala Lumpur its first mass transit system, while new commercial and residential property developments are mushrooming along the Klang Valley, on the city's outskirts.

A slew of other big infrastructure projects is planned in Malaysia in the next few years. They include an administrative capital, a massive high-tech international airport and the world's biggest hydro-electric dam – not to mention a further 16,000km of paved roads.

Mr Daim Zainuddin, chief economic adviser to Dr Mahathir Mohamad, Malaysia's prime minister, argues that the investment is essential to maintaining national competitiveness. "If we don't have the infrastructure, if there are bottlenecks, foreign investors will go somewhere else," he says.

However, some observers wonder whether the country's infrastructure boom is going too far, too fast. They fear capacity will outstrip demand, even in an economy which has grown by more than 8 per cent annually for seven years. That, they warn, could drive down returns, causing a sharp contraction in investment which would weaken the economy.

"The danger for Malaysia is not that it will have too little infrastructure, but too much," says Mr Manu Bhaskaran, head of research at Crosby Securities in Singapore.

The government appears to have heeded such concerns. Last autumn, it tightened monetary policy and announced fiscal measures to control property investment. It said it would launch no further "megaprojects" in the foreseeable future. Fears of a glut of telecommunications transmission capacity have also led it hastily to scale back previous deregulation plans. Earlier this year, the government decided that only three of the five competing public service networks for which it had granted licences should go ahead.

Officials insist infrastructure investment is now back on course. Some argue that the alarm was overdone, because construction of the megaprojects will be spaced over a number of years, and some, such as the new administrative capital, will be implemented in phases.

Nor are they too concerned at temporary excesses of capacity, arguing that that would be less harmful to economic development than would shortages. In any case, they say, providers of essential infrastructure, such as roads and electricity supply, have consistently under-estimated growth of demand in the past.

As the economy expands further, the government argues, it will spawn new types of activity. For instance, business services – still an underdeveloped sector in Malaysia – are expected to occupy much of the 25 per cent planned increase in office space in Kuala Lumpur over the next three years.

Many private sector experts broadly share the government's confidence on this point. However, they are less sanguine about the viability of some other projects into which private capital is being poured.

Most think the 25 five-star hotels due to be built in Kuala Lumpur by the end of 1998 will struggle to be profitable, while a surge in investment in the city's retailing space, due to double in the same period, is widely expected to lead to a bruising sectoral shake-out before the end of the decade.

There are also questions about the prospects for some of the new privately-financed road projects springing up across the country. Many are inspired by the financial success of the North-South highway, Malaysia's first large privatised road-building scheme.

However, some foreign investment bankers in Kuala Lumpur argue that high profit margins on many newer projects will be difficult to achieve because of stricter government rules on concession terms.

Even some observers who accept the government's arguments that economic development requires a high rate of infrastructure investment question whether it is always put to the most productive and efficient use.

"There is a tendency in Malaysia to want the biggest and best of everything, regardless of cost or need," says a manager of a foreign construction group. For instance, office accommodation in the Petronas towers could have been provided far more cheaply in a series of low-rise blocks, while the scale of the planned international airport makes very optimistic assumptions about future traffic growth, he says.

There is some evidence that the infrastructure boom has been fuelled by a desire to impress the world. Kuala Lumpur's light railway has been built at least partly with an eye to the Commonwealth Games, which the city will host in 1998.

However, most visitors to the country will probably never see the grandest – and most controversial – of the "megaprojects" on the drawing board. This is the Bakun hydro-electric dam, to be built deep in the tropical rain forest of eastern Sarawak.

The M$15bn project, to be twice as high as the Aswan dam, involves flooding an area the size of Singapore. Due to be completed early next century, it is planned to generate 2,400MW of power, to be transmitted to peninsular Malaysia by the world's longest submarine power cable.

■ **Tourism and air services:** by Gordon Cramb

Taste of authenticity

Western tourists are being targeted and there may soon be a glut of hotel rooms

Beef and chicken satay come sizzling down the aisle on Malaysia Airlines almost as soon as the flight is under way, providing just about as authentic a first taste of this national cuisine as can be found at the country's ubiquitous streetside hawker stalls.

Mr Tajudin Ramli, chairman of the privatised flag carrier, says the appetiser has been chosen as a "signature" item of fare onboard MAS, which since he took control in 1994 has been rapidly adding routes and doing deals with other airlines to harness a booming regional travel market.

Tourist arrivals, at 7.5m last year, are officially projected to reach 12.5m by 2000, giving an annual growth rate of 10.7 per cent. Total receipts from travel to Malaysia, at M$9.2bn, represented some 4.3 per cent of 1995 gross domestic product. The tourism sector is billed in the latest five-year plan, released last month, as an important means of redressing a troublesome current account deficit.

Receipts are forecast to reach M$15.7bn by 2000 through a strategy which "will be geared towards increasing visitor volumes and return visits as well as attracting higher spending and longer staying tourists," says the government document.

Two-thirds of arrivals are from elsewhere in south-east Asia, though, and the plan budgets for no overall increase in stay from last year's average of just 4.8 nights. While these long-weekenders will shell out progressively more per trip as their home economies continue to grow, employee holiday entitlements in those countries are likely to remain short. So expectations for much of the extra revenue need instead to be pinned on wealthy westerners.

Malaysia's national and regional tourism authorities have recently become diligent visitors to German travel trade fairs in an attempt to cultivate that lucrative source of holidaymakers. But Britain, the former colonial power, remains the biggest of these long-haul markets, and a code sharing deal between MAS and Mr Richard Branson's Virgin Airlines has been instrumental in improving the fortunes of Mr Tajudin's company.

By selling blocks of seats to Virgin on MAS flights from the UK, his airline has increased its London frequency from eight to 14 services a week. Together with tie-ups with other carriers such as Australia's Ansett, this keeps the 102-strong fleet in the air longer earning money, rather than idle on the ground. Wide-bodied jets that operated 10 to 11 hours a day are now in service for 13 to 15 hours, close to the industry optimum.

MAS has just committed M$10bn to buy 15 of the new Boeing 777s and 10 of its ultra-large 747-400s in a deal which reflects an expectation of 7 per cent annual passenger growth over the next seven years. The purchase has attracted adverse comment in the normally compliant local press because of its ambitious scale and the airline's already high debt level of M$6.8bn.

"Many people thought we had gone bonkers," Mr Tajudin acknowledges, while insisting that "revenues generated will be good enough for us to pay for the debt."

Capital investment on just as big a scale is under way by the government, to receive the increased number of passenger arrivals at the country's airports, and by hotel chains to accommodate them. The central authorities these days largely confine their role to infrastructural projects, although a few regional administrations have been caught up in a hotel building boom which some suspect will lead to a glut of rooms by late 1998 after the country has hosted the Commonwealth Games that September.

If capacity outruns demand, the danger is that bandwagoning by a private sector keen to reap the promised tourist rewards could leave stranded the smaller and more weakly capitalised developers.

> Five-star hotels in Kuala Lumpur are struggling to keep trained staff

Still, choice is currently thinnest in the midrange price bracket, and the preponderance of travellers from neighbouring countries may mean that reasonably located hotels below executive class will establish a sustainable market once the athletes and their entourage have gone home.

For the public sector, far and away the largest project is the Kuala Lumpur International Airport, being built south of the capital at a cost of up to M$9bn and due to open within two years. This first phase of a much bigger development will be able to handle 25m passengers a year, compared with the 16m capacity at the 30-year-old Subang airport, for which it will be an overdue replacement.

Final capacity for what is intended to be a regional hub will be for 60m people, but officials say they recognise that the land for the terminals to house them is likely to lie fallow for decades yet. The facility forms part of an investment programme by the transport ministry which has recently brought an upgrading of runways, aprons and terminals at several national locations to reflect an increase of 43.2 per cent in aircraft movements over the past five years.

One such airport is on Langkawi island off the north-west of the peninsula, where a sleek new terminal building opened last December to cater to foreign arrivals on the jumbo jets which its runway can accommodate, and the domestic travellers making use of the island's duty-free status. Langkawi, to be promoted as a "Hawaii of the East" to markets including Japan, offers pristine beaches, diving and an increasing number of upmarket resorts.

In the past six months a Radisson, owned by another of Mr Tajudin's companies, has opened, along with a second Sheraton operated by the local Faber group. Room rates at M$400 and upwards (double that for a sea view at the Radisson) are higher than those Kuala Lumpur can command.

But standards of service as well as facilities are superior to those at five-star hotels in the capital which are struggling to keep trained staff – in an economy with full employment, personable English speakers move on to more rewarding service sectors, or at least to better positions in new establishments.

A hotel is going up on seemingly every undeveloped corner of Kuala Lumpur's "Golden Triangle" business district. A M$600m, 399-room Renaissance, being opened this month by the Hong Kong-controlled New World group together with a local partner, will form part of the country's largest hotel complex. Tourism officials estimate that some 5,000 rooms are under construction in the capital and its environs alone.

Away from the cities, ribbon development cannot easily despoil a country with so long a coastline. Rules, enforced in some areas, that require hotel complexes to be built no higher than a palm tree help maintain a feeling of space long since lost in many other south-east Asian destinations.

Nor are visitors easily put off when less welcome reminders of their whereabouts intrude. A cholera epidemic last month, which totalled more than 1,300 cases, was centred on Penang, another popular resort island off the north-west coast. But very few charter bookings were cancelled and no one died in the outbreak, which was blamed on contaminated ice sold by factories on the island to hawkers who served it in drinks bought by patrons of their kerbside stalls.

The incidence of the disease did, however, prompt moves by regional authorities to consider closer regulation of the hawkers. In Melacca, one proposal threatens to exile their stalls to air-conditioned indoor "food courts".

Those are best known in sanitised Singapore. Though Kuala Lumpur may now have taller buildings than the island state to the south, Malaysia wants to differentiate itself as a destination. Its roadside satay, so well replicated on MAS, perhaps should retain a smokier flavour.

■ **Financial market development:** by Gordon Cramb

Rules likely to be softened

Overseas finance houses are convinced they will reap progressively greater rewards

Mr Munir Majid, chairman of Malaysia's Securities Commission, speaks his mind as bluntly as any regulator. His annual report, out last month, bristles with exhortations, warnings and – for foreign operators interested in a role in the country's expanding financial markets – encouragement and a few promises.

The "objective of making Kuala Lumpur a regional capital market centre already implies greater international participation in the marketplace," he declares, going on to warn cosseted local brokers: "It will not do to live from one bull market to the next; that is hand-to-mouth existence, even if the food comes on a silver platter."

The "missing link continues to be an active private ringgit bond market" and while there are "many inadequacies that impede" its development, a "patchwork approach would not be sufficient" to cater to the needs of international institutions.

Growth of the fund management industry is also central. The Employees Provident Fund, the state-run pensions giant with some M$100bn in trust, has outlived its original function of financing government-owned companies because privatisation is taking the state out of the commercial sector.

"The EPF is thus rather in the position of being all dressed up with nowhere to go," his report wryly observes before adding: "Actually, there are very many places to go, if there is liberalisation of required investments and empowerment of qualified account holders to exercise individual choice."

This has happened to an extent: workers with sufficient funds in their EPF account can withdraw as much as 20 per cent of it to put into the stock market, while the EPF itself, which currently has only some 5 per cent of its holdings invested in equities, will be allowed a ceiling of 15 per cent. "However, the process should be pushed further and faster."

Many restrictions still apply – both to what Malaysians can do with their money, on a corporate as well as an individual level, and to what extent foreigners can be involved in managing it. While a course for liberalisation has been set, a timetable has not.

But even in the absence of that, the government appears to have convinced overseas finance houses with activities in Malaysia that their presence is worthwhile – that by being there they will reap progressively greater rewards, and that they will encounter a flexible response if a particular need requires them to push an existing boundary.

"We will see a softening of rules," says Mr Stephen Weller of Jardine Fleming in Kuala Lumpur. Later this year his company expects to launch a unit trust which would be the first foreign initiated product to source money from local investors.

Others say that by following the state's wishes, terrain which initially seems unfertile can become productive for those willing to sow the first seeds. An offshore banking centre established nearly six years ago on Labuan island off the Borneo coast has been slow to take off, although close to 50 banking units are now licensed there. According to one overseas group that was present from near the outset, Kuala Lumpur takes a tolerant approach to how business is booked.

The government is setting up a one-stop regulatory agency for the island and is seeking to cultivate insurance and trust business on Labuan. These moves form part of an effort to streamline legislative and regulatory machinery affecting the financial sector in the country as a whole.

Short selling of shares will soon be allowed under controlled circumstances, along with stock lending and borrowing, which may bring much-needed liquidity to equity derivatives trading launched at the end of last year on the Kuala Lumpur Options and Financial Futures Exchange. The Kloffe plans this year to add stock index options and individual equity options to its sole existing product, a futures contract based on the Kuala Lumpur Stock Exchange's 100-share composite index.

Mr John Duggan, the Kloffe's chief operating officer, says that recent volume averaging fewer than 400 contracts a day is "best described as modest, but I have to say I'm disappointed". Foreign institutions account for more than half the activity, while domestic investors have "currently so many opportunities in the cash market, which they are comfortable with."

The Kloffe, owned by shareholders led by the Renong group, was last month joined by the Malaysia Monetary Exchange, offspring of the Kuala Lumpur Commodity Exchange, which launched trading in a contract based on three-month Klibor, the local interbank offered rate.

At the behest of the authorities, the two new exchanges share a common clearing house, but their approaches have been different – the Kloffe deals electronically while the MME, like its parent, is an open outcry market conducted next to the KLCE's own sole pit, which trades palm oil futures.

The launch of derivatives trading in Malaysia comes a decade after Dr Mahathir Mohamed, prime minister, called for the establishment of financial futures markets in the country.

Behind the delay, and the emergence of separate exchanges rather than an integrated market like the Singapore International Monetary Exchange, lies rivalry between the parent groups and between the government departments which traditionally oversaw their operations: the KLCE comes under the remit of the primary industries ministry.

The Klibor contract will for the first time allow users to hedge an exposure to ringgit-denominated rates, and reflects a domestic money market which has been growing at an annual 40 to 50 per cent in recent years. Central bank clearance is being awaited for the exchange to enter currency futures but Mr Syed Jabbar Shahabudin, MME chairman, acknowledges that a US dollar/ringgit contract "still needs discussion" as exchange controls would have to be amended.

Similarly, plans by the MME to go into bond futures are hampered by a narrow secondary market for cash bonds and the resulting absence of a benchmark issue on which to hang a contract. This is made more difficult because the government, in shifting future large infrastructural projects to the private sector, is scaling back its own funding requirements. With a public sector redeeming rather than issuing, bringing further breadth and sorely-needed depth to the debt market may take some time.

Foreign firms can own up to 49 per cent of a futures broker, a harbinger of change in restrictions placed on the stock exchange itself, where the current limit is 30 per cent. According to the Securities Commission's Mr Munir, that ceiling will be raised to match that prevailing on the derivatives exchanges. No date has been set but "you can say that is a fact," he said in an interview.

Fixed stockbroking commissions were replaced last year by a tiered structure, at a time when the market was going through a protracted dull patch. But with turnover now running at twice 1995 levels, some expect an earnings performance for the industry approaching that of the 1993 bull run, when share prices all but doubled and brokers earned an estimated total of M$4bn to M$5bn before tax.

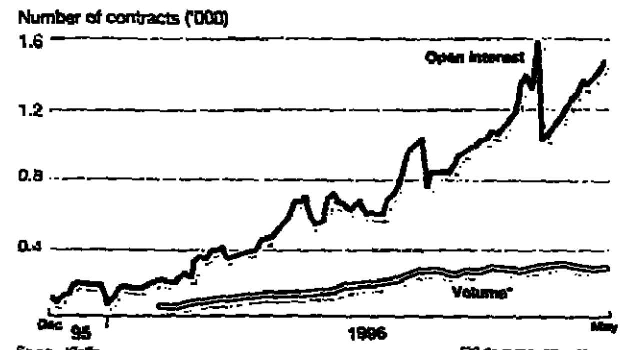
A scripless market will be in operation by the end of the year, so jitters which accompanied the discovery last November of forged share certificates will not recur. Suspected stock manipulation by syndicates will be less tractable, however. This mainly affects the second board comprising minority holdings in younger companies. A consolation is that any scandal here should prompt a flight to the quality stocks to be found on the main board.

The government wants local companies to come to the market, and although foreign investors remain excluded from initial public offerings, more than adequate demand is there. Flotations routinely open at huge premiums to their issue price, with earnings multiples difficult to justify and not always sustained.

> With turnover twice 1995 levels, some expect earnings performance to approach that of the 1993 bull run

Mr Abdul Rashid Hussain, who as chairman of the RHB group heads an indigenous financial empire which includes the country's biggest stockbroker, says: "It makes my research department look very stupid. The market is driven more by liquidity. The smaller the stock, the higher it often goes."

Kloffe trading activity



Source: Kloffe

Unit trust industry

	End-1995	End-1994
No. of management companies	27	20
No. of approved funds	67	52
Total approved size	37.36bn units	28.81bn units
Units in circulation	31.94bn units	25.12bn units
Net asset value (NAV)	M$44.13bn	M$35.72bn
No. of accounts	6,849,521	6,197,000
% of NAV to stock market capitalisation	7.8%	7.0%

Source: Securities Commission

■ **Education:** by James Kynge

A shake-up on campuses

Government reforms aim to turn out more and better-qualified science graduates

Gradualism is the unofficial anthem of Malaysia's government reformers. By local standards then, the changes afoot in the country's education system might approximate to a revolution.

Since late last year the government has been pushing through a series of reforms to reorganise university education with the aim of turning out more and better qualified graduates in science and technology disciplines. The imperative to do so has arisen because of a chronic shortage of skilled workers which threatens to derail the country's economic advance.

The main target of the changes are the nine state-run universities, which retain a long-standing monopoly on granting degrees. Now, though, their star is falling and the new education minister, Mr Najib Tun Razak, recently described them "bastions of conservatism and elitism". He ordered them to become more dynamic and responsive to the country's needs.

The first step to this end will be to "corporatise" the nine universities, making them more like businesses.

Staff will be given productivity targets, the universities will have to engage in marketing campaigns and administrators, long accustomed to the state's beneficence, will be gently introduced to the balance sheet.

Meanwhile, accreditation for the first private universities is likely to be approved by parliament in July. Some of the new institutions are expected to be branch campuses of foreign universities chosen from applicants in Britain, the US, Australia and Germany. They will be staffed by a mixture of foreign and local teachers and be backed by powerful private sector companies. The government hopes they will become beacons of educational excellence not only for Malaysia but for students from all over the region.

Not everyone is pleased with the vision. "A lot of lecturers are very anxious. The laws do not say what will happen to us," says a lecturer at Universiti Malaya, which is due to begin corporatisation in July. "Will we be made redundant?"

Education analysts say flexibility and ambiguities have been purposely woven into the new laws so that the minister can influence reform as it goes along. Mr Najib is adamant that full privatisation of the state universities is not on the cards. But analysts note that nowhere in the legislation does it state that corporatised universities will be non-profit organisations. Neither do the laws make clear how the level of fees (currently negligible) will be determined.

Such unresolved questions and possible resistance from some state universities may delay the reorganisation, but the government is well aware that it cannot afford to stall for long. The lack of skilled labour is identified by foreign investors, a prime force in modernisation, as the single biggest problem in an otherwise generally attractive business environment. Foreign multinationals can find themselves paying annual salary increases of as much as 15 to 20 per cent for skilled engineers, partly to keep them from being poached away.

An education ministry official says he expects five or six foreign universities to be granted licences for branch campuses either late this year or early in 1997. Mr Najib will make the final choice on which universities to allow in. Those with strong science and applied science faculties will be favoured over those emphasising the arts.

> Some shibboleths are being challenged

"There is an incredible level of interest from foreign universities. A lot will either give up disappointed or they may set up colleges that do not grant degrees," says Ms Alexia Bannikoff, the education counsellor at the Australian High Commission in Kuala Lumpur.

At least 10 and perhaps as many as 20 foreign universities are in talks with Malaysian companies and state administrations. It is likely that within five years, a handful of branch campuses catering to between 5,000 to 10,000 students each will be operating on Malaysian soil. Many of the foreign universities hope to expand into Malaysia so as to position themselves in the booming Asian market for education.

"Education is now a global business. If your university does not have an international presence, then you will probably end up on the sidelines," says a foreign professor recently in Kuala Lumpur.

Dr Mahathir Mohamed, the prime minister, has said that few students will need to go abroad to study after foreign universities come to Malaysia. If he is right, the country could save an estimated M$3bn which is currently spent on some 50,000 students overseas at any one time.

Observers say it is premature to assume that the reforms will lead to an exodus of teachers and students from the state universities to their new rivals. Fees at the state institutions are likely to be subsidised for many years and teachers, although they may be paid less, may find compensation in a more stable career.

But some shibboleths are being challenged. The intake into state universities has always been dictated by a quota system which allows for 64 per cent of places to go to bumiputras, indigenous Malays. But the private universities will not be bound by this system, meaning that entrance into them will be relatively more open to ethnic Chinese (who make up 35 per cent of the population) and Indians.

Another long-standing rule on using Bahasa Malaysia – the mother tongue of the Malays – as the language of instruction is also likely to be diluted significantly, since few foreign lecturers will be able to speak it.

The prime minister (right), on a visit to Sapura Nokia, the Malaysian-Finnish company, last year

■ **Industrial development:** by Guy de Jonquières

Held back by a skills shortage

The plan to focus on productivity gains as a driver of growth faces a big hurdle

If global competitiveness rankings mean anything, Malaysia has reason to be pleased. The latest World Economic Forum league table, released last month, puts the country in 10th place, just behind Taiwan and ahead of economies such as Japan, Thailand, the UK, Korea and Germany.

A more solid testimony to Malaysia's economic strengths is the continuing inflow of foreign direct investment, above all in electronics, which has contributed to its heady growth rate and made it the world's largest exporter, and third biggest producer, of semiconductors.

So great is Malaysia's appeal that the government has for some time turned away proposed foreign investments in activities which it judged too labour-intensive or low-tech, and encouraged those already established to move to lower-cost locations.

However, the country's leaders are keenly aware that it still has a long way to go towards its goal of becoming an industrialised economy by 2020, and that its existing achievements are constantly under challenge, above all, from east Asian neighbours.

The government's solution is to shift the emphasis from sheer quantity to quality of growth. Its objective, spelled out in the five-year plan published this year, is to deepen and broaden the country's industrial base while focusing on faster productivity gains as a major driver of growth.

"We have reached a crossroads, and now we will go for a higher level of industrial sophistication," says a senior official of the Malaysian Industrial Development Authority. "In the past, we have relied on export-led growth, but the next five years will be a period of structural transformation."

The aim is to encourage expansion of industries including petrochemicals, aerospace, car manufacturing and steel, while strengthening the country's capacity to supply more of the technology, components and skills required by industrialisation.

The electronics industry offers a case study of the task ahead. Despite its impressive exports of semiconductors, Malaysia still lacks a modern wafer fabrication facility to make the basic chips. And while some older-established companies, such as Intel and Motorola of the US and Sony and Matsushita of Japan have designed some products locally, they are exceptions among inward investors.

In truth, much of the manufacturing done in Malaysia consists of assembling components produced elsewhere. The reluctance of foreign – particularly Japanese – investors to transfer more advanced technologies is a long-running government complaint.

A recent report by Sussex University for the World Bank and Malaysia's science and technology ministry also found the country had been slow to use multinationals as a springboard to develop its own networks of suppliers, sub-contractors and manufacturers.

"Malaysia's problem is that we are good at processing, but very weak at product development," says Mr Lim Teng Lew, chairman of HIL group, a plastics manufacturer which has diversified into electronics.

He says that when the company decided to develop its own television set two years ago, it hired a Korean engineer, to help. "But he couldn't find the right people in Malaysia, so he went back to Korea, where he got the job done in three months."

A variety of schemes has been launched to tackle such weaknesses. They include a programme to encourage procurement from small suppliers and discreet but persistent official pressure on bigger companies to raise the local content of their products. Tax incentives were offered recently to companies building wafer fabrication plants.

The government is counting heavily on Proton, the recently privatised national car project, to strengthen manufacturing capabilities by using its purchasing power to encourage the development of local parts suppliers.

> 'We are good at processing, weak at product development'

But some multinationals say they are deterred from deeper involvement with Malaysia's local industry by the country's trade rules. These require that, to import components duty-free, they must export at least 80 per cent of their output – a policy which in effect segregates the market.

Much the biggest hurdle facing Malaysia's ambitions for industrial development, however, is a chronic shortage of all kinds of labour. For some multinationals, factory staff turnover rates have risen sharply in recent years, while finding qualified professionals in disciplines such as accountancy is increasingly difficult.

The government is seeking to address these problems by stepping up spending on education and increasing the number of university places. Leading multinationals have also joined forces to fund the establishment of several skill development centres, designed to train technicians.

However, many foreign managers doubt that these measures will work quickly enough. According to an industry estimate, 60,000 more qualified engineers will be needed by the end of the century just to sustain the country's recent industrial growth rate.

"The looming skills shortage will push labour costs up further," says an executive of a leading western electronics company. "Lower-technology industries will have to upgrade, move offshore or get out of business."

One reason that foreign companies emphasise the scale of labour shortages is to put pressure on the government to admit more employees from abroad. Their single biggest complaint is the difficulty of obtaining work permits.

The government says it is ready, in the interests of further development, to admit staff for highly-skilled jobs which cannot be filled locally, such as running wafer fabrication plants. However, it is dead-set against any wider relaxation.

By some estimates, there are at least 2m foreign workers in Malaysia already, about half of them illegal. There is acute official concern about the social consequences of a further increase in a country where maintaining harmonious relations between different ethnic groups has long been a top priority.

Some foreign managers say that unless the labour shortage eases, their future expansion may be cramped. Yet it is hard to find any who are seriously considering cutting back or moving activities offshore.

For most, Malaysia's liberal trade policy, political stability, positive attitude to foreign investment and – still relatively – low costs continue to add up to a combination of attractions which few other Asian countries can match.

■ **Oil and gas:** by Robert Corzine

Targeting the Asian markets

New discoveries in the area are likely to boost production capacity

Malaysia looks set to become a growing source of natural gas exports for Asian markets in coming years. Analysts predict that it will prove to be an increasingly tough competitor for Indonesia, its gas-rich neighbour.

A number of developments over the past year should boost the country's gas production capacity. There has been growing optimism about the potential reserve base of discoveries made in the Malaysia-Thailand joint development area in the Gulf of Thailand.

Carigali-Triton Operating Company, a joint venture between Triton Energy, an independent US explorer, and the exploration subsidiary of Petronas, Malaysia's state-owned national oil company, has made several discoveries in the area. An accelerated programme to appraise them is under way, with company executives optimistic that sales contracts may soon be signed.

"Thailand has an almost insatiable appetite for natural gas," says one industry analyst, and Bangkok appears to be especially keen to use production from the joint development area, which is in waters claimed by both countries. It took 22 years of negotiations between Kuala Lumpur and Bangkok before the first production sharing contracts were signed in 1994, but most industry observers expect that the pace of development will be swift once the go-ahead is given by the two governments.

With gas reserves which represent about a fifth of the total in Asia, Malaysia has also embarked on plans to boost production of liquefied natural gas, which is mainly destined for Japan and other industrial markets in north-west Asia.

The go-ahead was given late last year for the construction of the third LNG unit at Bintulu, on the coast of Sarawak. LNG-3, which is due to come onstream in 2001, will consist of two trains with a capacity of 3.4m tonnes a year. A third train could be added later, according to Petronas.

The establishment of LNG-3 will make Bintulu the world's single largest producer of LNG, with annual output of about 22m tonnes a year. Some industry observers believe there could be sufficient nearby gas reserves to justify even further development of Bintulu in the next decade, when Malaysia's share of the growing Asian LNG market should be large enough to give it a greater role in setting LNG prices in the region.

Gas is also playing a large part in Malaysia's domestic energy sector, with the third and final phase of the Peninsular Gas Utilisation project, a pipeline which runs around much of peninsular Malaysia, due for completion this year.

Oil consumption is growing strongly in line with Malaysia's rapid economic development. Demand for oil products last year jumped by 10.1 per cent over 1994, when demand growth was just 5.1 per cent. With car ownership rates climbing steadily, much of the demand is for transport fuels, with petrol volumes in 1995 up by 10.4 per cent.

Strong local demand has helped encourage international oil companies, such as Shell and Mobil, to explore in deep-water areas where the technological risks are relatively high, but where there are greater prospects for finding large reserves.

> Petronas is looking at opportunities in Vietnam

Although much of Petronas's activities are aimed at meeting the energy needs of a growing domestic economy, the company is active elsewhere in the region and further afield.

Petronas is marketing oil products such as liquefied petroleum gas in Cambodia and other newly emerging Asian markets. An active explorer off Vietnam, it made a find last year with its partner, Mitsubishi. The company is also looking at downstream opportunities in Vietnam. And it has used Malaysia's Islamic credentials to make inroads in the Middle East.

International oil company executives often cite Petronas as an example of a state oil company which is adapting quickly to modern competitive pressures and trends. "The economic nationalism that created Petronas in the 1970s is dying down," says Mr Al Troner, head of Asia Pacific Energy Consulting, based in Kuala Lumpur. "The older generation of Petronas managers were country boys who were a little shy, but the new generation has more confidence and no chips on their shoulders."

But even though Petronas is increasingly focused on commercial concerns, and is no longer seen as primarily a vehicle for social policy, its involvement in the refinery project in Vietnam is also linked to Malysia's wider strategic and diplomatic goals in the region.